

**CHAPTER 5**  
**PROCUREMENT**

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## CHAPTER 5

### PROCUREMENT

**5.1 Scope of this Chapter.** This Chapter generally reviews the law applicable to the expenditure of public monies by the State and its agencies to acquire materials, services, and construction and the law applicable to the disposal of state materials. This chapter also reviews exemptions to the Procurement Code (A.R.S. §§ 41-2501 to -2673, and the related administrative rules, A.A.C. R2-7-101 to 1010 and R2-15-301 to 310). This Chapter does not consider acquisitions by school districts or other political subdivisions of the State and does not resolve all technical questions that may arise in the procurement process. This Chapter also does not discuss the procurement of real property or the leasing of space. This Chapter will focus principally on the Arizona Procurement Code. However, it should be pointed out that a prerequisite to any procurement is that there is an appropriation and allotment for the obligation incurred. A.R.S. § 35-154. Any obligation incurred without an appropriation “shall not be binding upon the state and shall be null and void and incapable of ratification by any executive authority to give effect thereto against the state.” *Id.*

#### **5.2 General Provisions and Applicability of the Procurement Code.**

**5.2.1 Scope of the Procurement Code.** Absent a specific statutory exception, the Procurement Code applies to all expenditures of public monies by any state governmental unit under any contract for the procurement of materials, services, construction, or construction services, except under “contracts between this state and its political subdivisions or other governments” (with certain exceptions) and for grants. A.R.S. § 41 2501(B). In the context of the Procurement Code, public officers or employees should consider any money that is in their custody in their official capacity to be public money.<sup>1</sup> The Procurement Code itself provides definitions of its key terms.

State governmental unit is defined as “any department, commission, council, board, bureau, committee, institution, agency, government corporation or other establishment or official of the executive branch or corporation commission of this state.” A.R.S. § 41-2503(37).

Contract is defined as “all types of state agreements, regardless of what they may be called, for the procurement of materials, services, construction, construction services or the disposal of materials.” A.R.S. § 41-2503(7).

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<sup>1</sup> See Chapter 4 for discussion of public monies.

Procurement is defined as “buying, purchasing, renting, leasing or otherwise acquiring any materials, services, construction or construction services.” A.R.S. § 41-2503(32)(a). Procurement also includes “all functions that pertain to obtaining any material, services, construction or construction services, including description of requirements, selection and solicitation of sources, preparation and award of contract, and all phases of contract administration.” A.R.S. § 41-2503(32)(b).

Materials is defined as “all property, including equipment, supplies, printing, insurance and leases of property,” but “[d]oes not include land, a permanent interest in land or real property or leasing space.” A.R.S. § 41-2503(27)(a)–(b).

Services is defined as “the furnishing of labor, time or effort by a contractor or subcontractor that does not involve the delivery of a specific end product other than required reports and performance.” A.R.S. § 41-2503(35)(a). Services “[d]oes not include employment agreements or collective bargaining agreements.” A.R.S. § 41-2503(35)( b).

Construction is defined as “the process of building, altering, repairing, improving or demolishing any public structure or building or other public improvements of any kind to any public real property.” A.R.S. § 41-2503(4)(a). Construction does not include “[t]he routine operation, routine repair or routine maintenance of existing facilities, structures, buildings or real property” or “[t]he investigation, characterization, restoration or remediation due to an environmental issue of existing facilities, structures, buildings or real property.” A.R.S. § 41-2503(4)(b).

Construction Services means either of the following for construction-manager-at-risk, design-build, and job-order-contracting project delivery methods:

- (a) “Construction, excluding services, through the construction-manager-at-risk or job-order-contracting project delivery methods;” or
- (b) “A combination of construction and, as elected by the purchasing agency, one or more related services, such as finance services, maintenance services, operations services, design services and preconstruction services, as those services are authorized in the definitions of construction-manager-at-risk, design-build or job-order-contracting in this section.”

A.R.S. § 41-2503(6).

**5.2.2 Department of Administration’s Responsibility For Procurement and Disposal.** Except as specifically provided otherwise by statute, the Legislature has delegated to the Director of the Department of Administration (DOA) the sole authority and responsibility for the procurement and management of all materials, services, and construction, and the disposal of materials. A.R.S. § 41-2511. Pursuant to this directive, among other tasks, the Director shall (a) “[p]rocure or supervise the procurement of all materials, services and construction needed by the state”; (b) “[e]stablish guidelines for the management of all inventories of materials belonging to the state”; (c) “[s]ell, trade or



otherwise dispose of surplus materials belonging to the state; and (d) “[e]stablish and maintain programs for the inspection, testing and acceptance of materials, services and construction.” *Id.*

**5.2.2.1 State Procurement Administrator.** The Director shall hire a state procurement administrator who shall administer the procurement of materials, services, and construction needed by the state. A.A.C. R2-7-201(A)–(B). The state procurement administrator shall delegate certain procurement authority to state government units under R2-7-202 and shall maintain a record of each contract awarded under A.R.S. §§ 41-2536 (Sole Source), or 41-2537 (Emergency) that exceeds the amount prescribed in A.R.S. § 41-2535(A), among other duties. A.A.C. R2-7-201(B)-(C). The state procurement administrator shall resolve procurement disputes between a purchasing agency and its agency chief procurement officer. A.A.C. R2-7-207.

**5.2.2.2 Delegation of Department of Administration's Authority to State Governmental Units.** The Director of DOA is authorized to delegate procurement authority to any state governmental unit. A.R.S. § 41-2512; A.A.C. R2-7-201(B)(5). The Director has done so pursuant to A.A.C. R2-7-202 through the state procurement administrator. The delegations have been both general and limited depending upon the capabilities and past experience of the state governmental unit and the impact of the delegation on procurement efficiency and effectiveness. Delegations must be in writing. A.A.C. R2-7-202(B). Delegated procurement authority must be exercised according to the terms of the delegation and the Procurement Code. A.A.C. R2-7-202(D).

**5.2.2.3 Agency Chief Procurement Officer.** “An agency chief procurement officer may further delegate procurement authority within the purchasing agency.” A.A.C. R2-7-203. Procurement officers shall perform all procurement duties in accordance with the Arizona Procurement Code and their delegated authority. A.A.C. R2-7-206.

**5.2.3 State Governmental Unit's Responsibility for the Procurement of Services of Clergy, Certified Public Accountants, Lawyers, Physicians, and Dentists.** The Legislature has delegated to each state governmental unit the authority to contract on its own behalf for the services of clergy, lawyers (when authorized by A.R.S. § 41-192(D)), certified public accountants, physicians, and dentists. A.R.S. § 41-2513(A). A state governmental unit's procurement of such services must comply with the Procurement Code. *Id.* Additional approvals are required as detailed in the following sections.

**5.2.3.1 State Governmental Unit's Procurement of Legal Services.** With few exceptions, state governmental units are prohibited from procuring legal services from anyone other than the Attorney General. A.R.S. § 41-192. *See also* Sections 1.3.3 and 1.9.5 to 1.9.5.4. When a state governmental unit is authorized to procure legal services outside of the Attorney General's Office, the Legislature has provided that the state governmental unit may do so only in compliance with the Procurement Code, and with the approval of the Attorney General. A.R.S. §§ 41-2513(A)-(B).

**5.2.3.2 State Governmental Unit's Procurement of Services of Certified Public Accountants.** Unless a statute provides otherwise, a state governmental unit may procure the services of a certified public accountant for financial and compliance auditing only upon approval of the Auditor General. A.R.S. § 41-2513(C). The Auditor General is required to ensure that contract audits are conducted in accordance with generally accepted governmental auditing standards. "An audit shall not be accepted until it has been approved by the auditor general." *Id.*

**5.2.3.3 State Governmental Unit's Procurement of Information Technology Purchases.** The Arizona Strategic Enterprise Technology office (ASET), established under A.R.S. § 18-101, *et seq.*, shall approve all information technology purchases exceeding twenty five thousand dollars for a budget unit. A.R.S. §§ 18-104(A)(1)(g) and 41-2513(D). Additional approvals including, but not limited to, review by the information technology authorization committee (ITAC), are required when a state governmental unit plans an information technology project with total costs greater than one million dollars. *Id.* and 18-121(C)(3).

**5.2.4 Procurement by State Governmental Units Exempted from the Procurement Code and Separately Authorized to Purchase.** The Legislature has exempted the Arizona Board of Regents and the legislative and judicial branches of state government from the Procurement Code, A.R.S. § 41-2501(E); however, the Legislature has directed the Arizona Board of Regents and the judicial branch to adopt procurement rules substantially equivalent to the Procurement Code prescribing procurement policies and procedures for themselves and the institutions under their jurisdiction. A.R.S. § 41-2501(F). A state governmental unit that is exempt or partially exempt from the Procurement Code and is authorized to engage in procurement without complying with any other procurement procedure nevertheless has a fiduciary obligation to the citizens and taxpayers of the State to conduct procurements in utmost good faith and in the best interests of the State. *See Hertz Drive-Ur-Self v. Tucson Airport Authority*, 81 Ariz. 80, 299 P.2d 1071 (1956); *Brown v. City of Phoenix*, 77 Ariz. 368, 375, 272 P.2d 358 (1954); *Osborn v. Mitten*, 39 Ariz. 372, 376, 6 P.2d 902, 904 (1932).

In the opinion of the Attorney General, competitive bidding should be employed in most procurements; the Attorney General's experience is that lack of competition in procurement generates abuse, results in favoritism, and usually results in higher costs. Ariz. Att'y Gen. Op. 75-11.

**5.2.5 Specific Procurements Exempted from the Procurement Code.** The Legislature has given certain state entities an exemption or partial exemption from Procurement Code requirements for specific procurements enumerated in A.R.S. § 41-2501 and other statutes. Appendix 5.1 lists the state entities and the specific exemptions from the procurement code. With respect to those exempted procurements, "[t]he head of any state governmental unit . . . has the same authority to adopt rules, procedures or policies as is delegated to the [D]irector [of the Department of Administration in the Procurement Code]." A.R.S. § 41-2501(N). *See* Section 5.2.4 respecting a state

governmental unit's fiduciary duty and the Attorney General's opinion regarding procurements that are exempt from statutory procedures.

**5.3 Procurement Code Procedures.** This section reviews several procedures and requirements applicable to Arizona state contracts, procurements not exceeding \$100,000, sole source procurements, emergency procurements, competition impracticable procurements, unsolicited proposals, demonstration projects, competitive sealed bids, competitive sealed proposals, and procurement of certain professional services, information and telecommunications systems, and specified construction materials. Unless otherwise authorized by law, all state contracts shall be awarded by competitive sealed bidding as provided in A.R.S. § 41-2533, or as provided by other statutes set forth in A.R.S. § 41-2532.

**5.3.1 Source Selection Method; Materials and Services under Existing Arizona State Contracts.** State governmental units must use existing state contracts designated as mandatory to purchase the materials and services that are covered by such contracts. A.A.C. R2-7-A301(A). If a particular mandatory Arizona state contract does not satisfy a governmental unit's needs, the governmental unit may not procure the required material or service from another source without first obtaining written approval from the State Procurement Administrator. A.A.C. R2-7-A301(B). A governmental unit should consult the State Procurement Office if questions arise. The agency chief procurement officer shall determine the applicable source selection method, and is responsible for “ensuring that the procurement is not artificially divided, fragmented, or combined to circumvent the Arizona Procurement Code.” A.A.C. R2-7-A301(C). A contract shall not be awarded and an obligation shall not be incurred on behalf of the state if sufficient funds are not available for the procurement. A.A.C. R2-7-A301(D); *see also* A.R.S. § 35-154.

**5.3.2 Procurements Not Exceeding \$100,000 in the Aggregate; Small Business Set Aside.** Procurements that do not exceed an aggregate dollar amount of \$100,000 are governed by A.R.S. § 41-2535(A), and the rules promulgated thereunder, A.A.C. R2-7-D301 to -D305.

The Administrative Code provides specific procedures for handling purchases estimated to cost between \$10,000 and \$100,000. *See* A.A.C. R2-7-D302 to -D303. These rules require the agency chief procurement officer to issue a request for quotation unless the purchase is not expected to exceed \$10,000 or may be made off an existing state contract or through a set-aside organization as defined in the Procurement Code, or if the agency chief procurement officer makes a written determination that competition is not practicable under the circumstances. A.A.C. R2-7-D301.

The purchaser should make a good faith estimate of the aggregate cost in order to determine whether the procurement is governed by the procurement rules on purchases not exceeding \$100,000. Procurements shall not be artificially divided or fragmented to circumvent the procedures required for purchases exceeding \$100,000. *See* A.R.S. § 41-2535(C). A procurement that does not exceed an aggregate amount of less

than \$100,000 shall be restricted, where practicable, to small businesses. See A.R.S. § 41-2535(B); A.A.C. R2-7-D302(B) and R2-7-D303(B). The request for quotation must include those items identified in A.A.C. R2-7-D302, and must be distributed to at least three small businesses in accordance with A.A.C. R2-7-D302(B).

**5.3.2.1 Simplified Construction Procurement Program.** Arizona Revised Statutes Section 41-2535(D) provides that “[a] procurement involving construction not exceeding [\$100,000] may be made pursuant to the rules adopted by the [D]irector.” The minimum rule requirements are stated in the statute.

**5.3.2.2 Purchases of \$10,000 and Less.** For purchases of \$10,000 or less, the agency chief procurement officer may, but is not required to, use a request for quotation. The agency chief procurement officer shall use reasonable judgment in awarding contracts for \$10,000 or less and in determining that such contracts are advantageous to the state. A.A.C. R2-7-D304. Purchases of \$5,000 or less have similar requirements and are governed by A.A.C. R2-7-D305.

**5.3.3 Sole Source Procurement.** A contract for a material, service, or construction item may be awarded without competition if the Director of DOA “determines in writing that there is only one source for the required material, service or construction item”; however, “sole source procurements shall be avoided, except when no reasonable alternative sources exist.” A.R.S. § 41-2536. The Director of DOA “may require the submission of cost or pricing data” in connection with a sole source procurement award. *Id.* The rule governing sole source procurements, A.A.C. R2-7-E301, only applies to procurements estimated to exceed \$100,000. A.A.C. R2-7-E301(B).

The authority to enter into a sole source procurement may be delegated to the agency chief procurement officer. A.A.C. R2-7-E301(C). If the authority has not been delegated, then the agency chief procurement officer must submit a written request for approval to the state procurement administrator to support a sole source determination that includes documentation that the price is fair and reasonable and a description of the efforts made to find other sources, among other information. *Id.* Pursuant to A.A.C. R2-7-E301(D)-(E), the state procurement administrator must provide notice to vendors before a sole source procurement may be approved. A written determination of the basis for the sole source procurement must be included in the contract file. A.A.C. R2-7-E301(F); A.R.S. § 41-2536.

**5.3.4 Emergency Procurement.** The Director of DOA may make, or authorize others to make, emergency procurements “if there exists a threat to public health, welfare or safety or if a situation exists which makes compliance with section 41-2533, 41-2534, 41-2578, 41-2579, or 41-2581 impracticable, unnecessary or contrary to the public interest as defined in rules adopted by the director, except that such emergency procurements shall be made with such competition as is practicable under the circumstances.” A.R.S. § 41-2537. “A written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file.” *Id.*

An “emergency” means “any condition creating an immediate and serious need for materials, services, or construction in which the state’s best interests are not met through the use of other source-selection methods. The condition must seriously threaten the functioning of state government, the preservation or protection of property, or the health or safety of a person.” A.A.C. R2-7-E302(A).

The rules set forth in A.A.C. R2-7-E302 apply only to emergency procurements for purchases above the \$100,000 threshold. A.A.C. R2-7-E302(B), referencing A.R.S. § 41-2535. The authority to approve an emergency procurement may be delegated to an agency chief procurement officer. A.A.C. R2-7-E302(C). The agency chief procurement officer must obtain the approval of the state procurement administrator before engaging in an emergency procurement, unless the emergency requires an immediate response. A.A.C. R2-7-E302(C)–(E). The agency must limit the procurement to such actions necessary to address the emergency, and must employ maximum competition, given the circumstances. A.A.C. R2-7-E302(F)–(G). The agency chief procurement officer is required to retain a copy of all emergency procurements according to the requirements of A.R.S. § 41-2551. A.A.C. R2-7-E302(H).

**5.3.5 Competition Impracticable Procurements.** “Competition impracticable” means a procurement requirement exists which is not an emergency under A.A.C. R2-7-E302, but it is one where compliance with A.R.S. §§ 41-2533, 41-2534, 41-2538 or 41-2578 would be impracticable, unnecessary, or contrary to the public interest or procurements that lack available vendors and which require an open and continuous availability. See A.A.C. R2-7-E303(A). Unless the agency chief procurement officer has delegated authority to approve competition impracticable procurements, the agency chief procurement officer must obtain the approval of the State Procurement Administrator before proceeding and must provide, among other things listed in the rule, an explanation of the competition impracticable need and the unusual or unique situation that makes compliance with A.R.S. §§ 41-2533, 41-2534, 41-2538, or 41-2578 impracticable, unnecessary, or contrary to the public interest. A.A.C. R2-7-E303(B)-(E). The agency chief procurement officer is required to retain a copy of all competition impracticable procurements according to the requirements of A.R.S. § 41-2551. A.A.C. R2-7-E303(F).

**5.3.6 Unsolicited Proposals.** A contract may be awarded based on an unsolicited proposal (*i.e.*, a proposal submitted at the proposer’s initiative and not in response to a solicitation) **only** if the Director of DOA determines in writing that the conditions for a sole source or an emergency procurement exist and that the unsolicited proposal satisfies the statutory requirements. A.R.S. § 41-2557. An agency chief procurement officer must obtain written approval from the State Procurement Administrator before proceeding with an unsolicited proposal. A.A.C. R2-7-G303.

**5.3.7 Demonstration Projects.** If the Director of DOA determines in writing that a project is innovative and unique, a demonstration project may be undertaken. A.R.S. § 41-2556(A). A demonstration project may not continue longer than two years. *Id.*; A.A.C. R2-7-G302(F). The state is not required to pay for a demonstration project and may only do so upon written determination from the Director of DOA that doing so is in the best interests of the state. A.R.S. § 41-2556; A.A.C. R2-7-G302(C). An agency chief procurement officer must obtain written approval from the state procurement administrator prior to proceeding with a demonstration project. A.A.C. R2-7-G302(B).

**5.3.8 General Procurement of Materials and Services.** The principal method provided in the Procurement Code for the general procurement of material and services is no longer limited to competitive sealed bidding. A.R.S. §§ 41-2532. See Sections 5.3.8.1 through 5.3.8.1.3. See A.A.C. R2-7-A301 for a discussion of the determination factors of a source selection method for a procurement. Competitive sealed proposals may also be used to contract for materials and services. A.R.S. § 41-2534(A); see Section 5.3.8.2. Generally, competitive sealed proposals are used to obtain commodities and professional services not governed by A.R.S. §§ 41-2538 or 41-2581. See Section 5.3.9 for a discussion of A.R.S. § 41-2538. The competitive sealed proposal method cannot be used for procurement of construction or construction services, which are governed by A.R.S. §§ 41-2537, -2578 or -2579 and are discussed in Section 5.3.10, or certain professional services governed by A.R.S. § 41-2581. A.R.S. § 41-2534(A).

**5.3.8.1 Competitive Sealed Bidding.** Arizona Revised Statutes Section 41-2533 and A.A.C. R2-7-B301 to -B316 describe the procedures to be followed in competitive sealed bidding. Either the State Procurement Administrator or an agency chief procurement officer, if authorized, issues an Invitation for Bids (IFB) describing what is to be purchased, all contractual terms to be entered into by the successful bidder, and the conditions of the procurement. A.R.S. § 41-2533(B). The public must receive notice of the IFB at least fourteen days before the bid is opened, A.A.C. R2-7-B301(A), and such notice may include publication one or more times in a newspaper of general circulation, A.R.S. § 41-2533(C). If the IFB is for procurement of services other than those described in A.R.S. §§ 41-2513, 41-2578, 41-2579, or 41-2581, the notice must be published in one or more newspapers within the state and circulated within the affected jurisdiction. *Id.* The notice may also be posted at a designated site on a worldwide public network of interconnected computers (*i.e.*, the world-wide-web/internet). *Id.* The purchasing authority is also required to mail or otherwise furnish written notice of the IFB to all “prospective suppliers that have registered with the state procurement office for the specific material, service, or construction solicited.” A.A.C. R2-7-B301(B)(2). The bids must be opened in public at the time and place designated in the IFB, and the name of the bidders and amounts of the bids are required to be recorded. A.R.S. § 41-2533(D); A.A.C. R2-7-B306. That record must be open to public inspection, but no bid may be inspected by the public or by other bidders until an award has been made. A.R.S. § 41-2533(D); A.A.C. R2-7-B306.

**5.3.8.1.1 Contents of the Invitation for Bids (IFB).** An IFB must contain the information listed in A.A.C. R2-7-B301(C), which includes instructions, evaluation criteria, specifications, and applicable contract terms and conditions. A.R.S. § 41-2533(B); A.A.C. R2-7-B301(C).

An IFB must include specifications, *i.e.*, descriptions of the “physical or functional characteristics, or of the nature of a material, service or construction item.” A “[s]pecification may include a description of any requirement for inspecting, testing or preparing a material, service or construction item for delivery.” A.R.S. § 41-2561. Bid specifications are required to “promote overall economy for the purposes intended and encourage competition in satisfying this state's needs and shall not be unduly restrictive.” A.R.S. §§ 41-2565, -2566. Because of this philosophy, proprietary specifications—those specifications that identify a product by brand name or that are so restrictive as to exclude all but a brand name product—are prohibited. See A.A.C. R2-7-401 to -403. As specifically stated in A.A.C. R2-7-B301(C)(2)(b):

If a brand name or equivalent specification is used, instructions that use of a brand name is for the purpose of describing the standard of quality, performance, and characteristics desired and is not intended to limit or restrict competition. The solicitation shall state that products substantially equivalent to the brands designated qualify for consideration.

Neither familiarity with a particular product, a brand name product's past success, or the inconvenience of drawing specifications justifies the use of proprietary specifications. Ariz. Att'y Gen. Op. 75-11.

**5.3.8.1.2. Conflict of Interest.** Except as determined in writing by the state procurement administrator, no person preparing or assisting in the preparation of specifications, plans or scopes of work for a solicitation may receive any direct benefit from the use of those specifications, plans, or scopes of work. A.A.C. R2-7-404. An employee or procurement officer having a significant procurement role as defined in A.R.S. § 41-2503 (36) shall not accept any position nor negotiate or discuss a position of employment with any person or entity responding to the solicitation for one year. A.R.S. §§ 41-753(D), 41-2517; *see also* A.R.S. § 41-2501(D). See Section 5.4.14.

**5.3.8.1.3 Bid Evaluation and Award.** Under the competitive sealed bidding procedures, a state governmental unit must award a contract to the “lowest responsible and responsive bidder whose bid conforms in all material respects to the requirements and evaluation criteria” set forth in the IFB. A.R.S. § 41-2533(G). A bid that takes exception to a mandatory specification or fails to meet a material requirement in an IFB is not a responsive bid and the procuring governmental unit must reject that bid as nonresponsive. A.A.C. R2-7-B312(C). The agency chief procurement officer shall evaluate bids “to determine which offer provides the lowest cost to the state in accordance with any objectively measurable factors set forth in the solicitation.” A.A.C. R2-7-B312(A). Only

those evaluation criteria and bid requirements that are set forth in the IFB shall be applied in evaluating bids. A.R.S. § 41-2533(E). A record showing the basis for determining the successful bidder shall be retained in the procurement file. A.A.C. R2-7-B314(B).

**5.3.8.1.4 Multistep Sealed Bidding.** Multistep sealed bidding may be used when specifications are inadequate to ensure full competition and technical evaluations are necessary to ensure mutual understanding of the state's procurement needs. A.R.S. § 41-2533(H); A.A.C. R2-7-B316(B). Multistep sealed bidding may not be used for construction contracts. A.R.S. § 41-2533(H). An agency chief procurement officer may initiate multistep sealed bidding pursuant to A.A.C. R2-7-B316(A). Multistep sealed bidding requires two phases: first, an agency chief procurement officer issues an invitation to submit unpriced technical offers in accordance with the procedures set forth in A.A.C. R2-7-B316. A.R.S. § 41-2533(H). Second, the agency chief procurement officer issues an IFB, in accordance with the procedures set forth in A.A.C. R2-7-B301 to –B315, to those offerors whose phase one technical offers were acceptable. A.A.C. R2-7-B316(I).

**5.3.8.2 Competitive Sealed Proposals.** Competitive sealed proposals may be used as an alternative to competitive sealed bidding for the solicitation of materials or services. A.R.S. § 41-2534(A). Competitive sealed proposals may not be used for construction, construction services, or specified professional services. A.R.S. § 41-2534(A). At least fourteen days before a Request for Proposals (RFP) is issued, adequate public notice must be given in the same manner as that provided for competitive sealed bidding, as described in Section 5.3.8.1. A.R.S. § 41-2534(C); A.A.C. R2-7-C301(A). An RFP must include the items listed in A.A.C. R2-7-C301(C), state the relative importance of price and other evaluation factors, and follow the requirements for specifications detailed in Section 5.3.8.1.1. A.R.S. § 41-2534(E); *see also* A.A.C. R2-7-C301(C). Proposals must be opened in public; however, their contents, including price, must remain confidential until an award is made. A.R.S. § 41-2534(D); A.A.C. R2-7-C306(D).

**5.3.8.2.1. Discussions.** Discussions may be held with those offerors deemed reasonably susceptible to being selected for award, and susceptible offerors must be accorded fair treatment with respect to an opportunity for discussions. A.R.S. § 41-2534(F); A.A.C. R2-7-C314. Such discussions may be held "for the purpose of clarification to ensure full understanding of the solicitation requirements and to permit revision of offers." A.R.S. § 41-2534(F). During such discussions, there shall be no disclosure of information from proposals to competing offerors. *Id.*; A.A.C. R2-7-C314(A). After discussions are held, all offerors that are determined by the procurement officer to be reasonably susceptible for award shall be invited to submit best and final offers. A.R.S. § 41-2534(F); A.A.C. R2-7-C315.

**5.3.8.2.2. Contract Award.** The award shall be made to the responsive and responsible offeror whose proposal is determined to be the "most advantageous to this state" based upon the RFP evaluation factors. A.R.S. § 41-2534(G); A.A.C. R2-7-C317. Proposals shall be evaluated based solely on the evaluation criteria contained in the RFP,



and the agency chief procurement officer cannot modify those evaluation criteria or their relative order of importance. A.A.C. R2-7-C316(A); see A.R.S. § 41-2534(G). Contracts that are awarded to multiple contractors must be limited to the least number of contractors necessary to meet the needs of the State or the cooperative procurement members, unless authorized by the State Procurement Administrator. A.A.C. R2-7-608.

**5.3.9 Procurement of Professional Services of Clergy, Physicians, Dentists, Legal Counsel, and Certified Public Accountants.** A state governmental unit in need of the services of clergy, certified public accountants, attorneys, physicians or dentists must procure such services in accordance with A.R.S. § 41-2538. See also A.A.C. R2-7-F302. That rule requires that the procurement of such services follow statutory standards unless the services do not exceed \$100,000 (A.R.S. § 41-2535; see Section 5.3.2); are sole source procurements (A.R.S. § 41-2536; see Section 5.3.3); or are emergency procurements (A.R.S. § 41-2537; see Section 5.3.4). The procuring state governmental unit must give adequate notice of its need for such services through an RFP that describes the needed services and lists the type of information and data required of each offeror. A.R.S. § 41-2538(C); A.A.C. R2-7-F302(B). The RFP also must contain the evaluation factors that the procuring unit will apply when it makes an award. A.R.S. § 41-2538(E). The procuring unit may conduct discussions with offerors to determine their qualifications for further consideration, but cannot disclose information derived from competing proposals. A.R.S. § 41-2538(D); A.A.C. R2-7-F308. The award must be made to the offeror determined in writing to be the best qualified based on the evaluation factors contained in the RFP. A.R.S. § 41-2538(E); A.A.C. R2-7-F309. There must also be a written determination that the compensation is fair and reasonable. *Id.* An award may be made without requiring priced proposals; however, if price is included in the proposals submitted, an award may not be made solely on the basis of price. *Id.*; see A.A.C. R2-7-F309(A).

**5.3.10 Procurement of Professional Services of or for Architects, Construction-Managers-at-Risk, Design-Build Construction, Job-Order-Contracting Construction, Engineers, Assayers, Geologists, Landscape Architects, and Land Surveyors.** Except as provided in A.R.S. §§ 41-2535, 2536, -2537, and -2581, construction services and professional services must be procured through the processes described in A.R.S. §§ 41-2578 or -2579. Procurements for a single contract for design-build construction, construction-manager-at-risk construction services, job-order-contracting construction services, or “professional services” (as defined in A.R.S. §§ 41-2578(K)) must be conducted pursuant to A.R.S. § 41-2578 and A.A.C. R2-7-501 to -511. A single procurement for multiple contracts for “similar job-order-contracting construction services to be awarded to separate persons or firms,” or for “professional services” (as defined in A.R.S. §§ 41-2579(K)) that may be awarded to either single or multiple person(s) or firm(s), must be conducted pursuant to A.R.S. § 41-2579 and A.A.C. R2-7-501 to -511.

**5.3.10.1 Request for Qualifications.** A.R.S. § 41-2578 details the specific requirements for a Request for Qualifications (RFQ) for such services, and the

procurement officer should carefully examine the statutory requirements. Adequate public notice of the solicitation must be provided in the same manner as that set forth in A.R.S. § 41-2533. A.R.S. § 41-2578(C)(2); see also Section 5.3.8.1. For procurements exceeding \$100,000, such notice must include at least one advertisement in a newspaper of general circulation or an industry trade publication, with such notice published at least fourteen days before the RFQ offer due date. A.A.C. R2-7-504(C)(2). Awards of contracts for such services shall be based on demonstrated competence and qualifications for the type of services required and at fair and reasonable prices. A.R.S. § 41-2578(B).

**5.3.10.2 Evaluation and Negotiation.** For an RFQ for the professional services listed in this section, a selection committee, established in accordance with A.A.C. R2-7-505, must evaluate the qualifications of the offerors and conduct interviews, if possible, in accordance with A.R.S. § 41-2578(C). The selection committee must evaluate the offerors using the criteria in the RFQ, looking only at qualifications, competency, and experience. A.R.S. § 41-2578(C). The selection committee must then create a list of at least three offerors, ranking them based on qualifications. *Id.* Neither the selection committee nor the purchasing agency shall request or consider fees, price, man-hours, or any other cost information at any point in the selection or evaluation process, including in the selection or ranking of offerors. *Id.*

After the selection or evaluation process prescribed in A.R.S. § 41-2578(C), the procurement officer shall enter into negotiations for a fair and reasonable contract price with the highest ranked offeror. A.R.S. § 41-2578(E). Such negotiations must include “consideration of compensation and other contract terms that the procurement officer determines to be fair and reasonable . . .” *Id.* If the procurement officer is unable to negotiate a satisfactory contract with the most qualified person or firm, the procurement officer may negotiate with the next most qualified person or firm in sequence until an agreement is reached or all proposals are rejected. *Id.*

**5.3.10.3 Alternative to A.R.S. § 41-2578(E) for Certain Construction Projects.** As an alternative to A.R.S. § 41-2578(E), the procurement officer may award design-build construction services or job-order-contracting construction services as prescribed in A.R.S. § 41-2578(F). After the selection committee creates a final list and ranks the offerors, in accordance with A.R.S. § 41-2578(C), the procurement officer then issues an RFP to those offerors and follows the requirements set forth in A.R.S. § 41-2578(F), including the requirement that the offerors submit separate technical and price proposals. A.R.S. § 41-2578(F)(3)(e). The selection committee must evaluate the technical proposals before opening any of the price proposals. A.R.S. § 41-2578(F)(3)(f).

**5.3.11 Procurement of Information Systems and Telecommunications Systems.** A contract for information technology must include a “life-cycle analysis” under A.R.S. § 18-104.

**5.3.12 Procurement of Earth-Moving, Material Handling, Road Maintenance and Construction Equipment.** A contract for earth moving, material handling, road

maintenance, or construction equipment may be procured either by IFB or by RFP. A.R.S. § 41-2554(A)–(B). The IFB or RFP evaluation criteria must include “total life cycle cost including residual value.” *Id.* See A.R.S. § 41-2554(D) for definitions.

**5.3.13 Public-Private Partnership Contracts.** “[A] public-private partnership contract is a government contract and not a partnership.” A.A.C. R2-7-G305(A). The Director of DOA may enter into public-private partnership contracts to finance the technology needs of a purchasing agency. A.R.S. § 41-2559(A). The procedures for the solicitation and the terms of the contracts are in A.R.S. § 41-2559 and A.A.C. R2-7-G305. The requesting agency chief procurement officer must obtain written approval from the State Procurement Administrator before entering into a public-private partnership contract. A.A.C. R2-7-G305(B)-(C). Such contracts must be procured in accordance with the procedures set forth in A.R.S. §§ 41-2533 (competitive sealed bidding), 41-2534 (competitive sealed proposals), 41-2535 (procurements not exceeding \$50,000), 41-2536 (sole source procurements) or 41-2537 (emergency procurements). A.A.C. R2-7-G305(D).

## **5.4 General Procurement Requirements.**

**5.4.1 Responsible Bidder.** Irrespective of the applicable procurement procedure, a contract may be awarded only to a responsible bidder or offeror. See, e.g., A.R.S. §§ 41-2533(G), -2534(G); A.A.C. R2-7-B313, -C317. A responsible bidder is one who has the capability to perform the contract requirements and the integrity and reliability to assure good faith performance. *Brown v. City of Phoenix*, 77 Ariz. 368, 373, 272 P.2d 358, 361 (1954); *Osborn v. Mitten*, 39 Ariz. 372, 376, 6 P.2d 902, 904 (1932). Considerations for determining whether an offeror is responsible include: the offeror's financial, business, personnel, and other resources, including its proposed subcontractors; record of performance and integrity; legal qualification to contract with the State; whether the offeror has been debarred or suspended; whether all necessary information concerning responsibility has been supplied; and whether the offeror meets all responsibility criteria specified in the solicitation. A.A.C. R2-7-B313(B), -C312(B). An unreasonable failure to supply information is grounds for determining that the offeror is not responsible. A.R.S. § 41-2540(A). Information on responsibility supplied by an offeror is confidential and may not be disclosed to any other person or entity, except for law enforcement agencies, without prior written consent of the bidder or offeror. A.R.S. § 41-2540(B); A.A.C. R2-7-B313(D), -C312(D).

Responsibility determinations shall be made by the agency chief procurement officer. A.A.C. R2-7-B313(A), -C312(A). Before a bidder or offeror is disqualified from receiving an award on the ground that he or she is not responsible, the decision-making authority should contact the Attorney General's Office for legal guidance.

**5.4.2 Prequalification of Contractors.** Prospective contractors may be prequalified for various types of contracts. A.R.S. § 41-2541. Prequalified contractors have a continuing duty to inform the State of material changes that might affect

prequalification. *Id.* Prequalified contractors shall be included on solicitation mailing lists of potential contractors. *Id.*

**5.4.3 Requests for Information.** An agency chief procurement officer may issue a Request for Information (RFI) seeking information on available materials and services. A.R.S. § 41-2555; A.A.C. R2-7-G301. A response to an RFI is not an offer and cannot be used to form a binding contract. *Id.* Information received in response to a RFI may be considered confidential until the procurement process is complete or two years have passed, whichever occurs first. *Id.*

**5.4.4 Conformity of Invitation for Bids (IFB) or Request for Proposals (RFP) to Specifications.** Bids must conform in all material respects to the IFB, and the specifications included therein, in order to be considered for award of a contract. A.R.S. §§ 41-2533(G); A.A.C. R2-7-B314. Minor or insignificant variations from specifications do not prohibit the awarding of a contract, but a variation from a specification designated as mandatory ("shall") may not be considered as insignificant or minor and may require invalidation of the bid or proposal. Ariz. Att'y Gen. Op. I78-94.

**5.4.5 Bid and Contract Security.** Depending upon the nature of the performance, the need for future protection to the State, and specific statutory requirements, various forms of bid and contract security may be required. *See, e.g.,* A.R.S. §§ 41-2542, 41-2573, 41-2574; A.A.C. R2-7-506, -508, -509, -510. The requirement for security must be included in the invitation for bids or request for proposals. A.R.S. § 41-2542; *see also* A.A.C. R2-7-506. Noncompliance with the bid security provisions in an IFB or an RFP may be grounds for rejection of the bid or proposal. A.R.S. § 41-2573(D).

**5.4.5.1 Construction and Construction Services Contracts.** Bidding, awarding, and performance of construction and construction services contracts are governed by the following statutory and rule security requirements.

A bid for construction procured pursuant to A.R.S. § 41-2533 or construction services procured pursuant to A.R.S. §§ 41-2578(F) or -2579(F), exceeding the amount set forth in A.R.S. § 41-2535 must be accompanied by bid security. A.R.S. § 41-2573(A). Upon award, a contract performance bond and a payment bond must be provided as specified in A.R.S. § 41-2574. At the option of the contractor, the contractor may provide substitute security in a form authorized by the Director of DOA. A.R.S. § 41-2576(A); *see also* A.A.C. R2-7-506(C), -509, -510; *but see* A.R.S. § 41-2576(D) (substitute security acceptable only if contractor waives right to offset). With certain exceptions, "[t]en percent of all construction contract payments shall be retained by this state [to ensure] proper performance." A.R.S. § 41-2576(A). When a construction contract is fifty percent completed, and if the contractor is progressing satisfactorily, one half of the amount retained shall be paid to the contractor and only five percent of subsequent progress payments shall be retained. A.R.S. § 41-2576(B). Progress payments under a construction contract can be made only on the basis of a "duly certified and approved

estimate of the work performed during a preceding period of time as set by rule." A.R.S. § 41-2577(A).

**5.4.6 Cost or Pricing Data.** When it is in the best interest of the State and under other circumstances, contractors may be required to submit certified cost or pricing data so that it can be determined if the costs are fair and reasonable. A.R.S. § 41-2543; A.A.C. R2-7-702 to -705. For contracts or contract modifications that exceed \$100,000, the agency chief procurement officer shall determine in writing that the price is fair and reasonable only if the price is based on adequate competition, supported by established catalog or market prices, set by law or rule, or supported by relevant historical price data. A.A.C. R2-7-702(A). Failure of an offeror to submit cost or pricing data may be grounds for rejection of a bid or offer. A.A.C. R2-7-704.

**5.4.7 Written Contracts.** A bid in response to an Invitation for Bids (IFB) or a proposal in response to a Request for Proposals (RFP) or a Request for Qualifications (RFQ) is an offer to contract upon the terms contained in the IFB, RFP, or RFQ and does not become a contract unless and until it is accepted by making an award. *Universal Constr. Co. v. Ariz. Consol. Masonry & Plastering Contractors Ass'n*, 93 Ariz. 4, 8, 377 P.2d 1017, 1019 (1963). "[A] public agency that accepts a bid on a public contract is not bound until a formal contract exists." *Ry-Tan Constr., Inc. v. Washington Elementary Sch. Dist. No. 6*, 210 Ariz. 419, 421, ¶ 13, 111 P.3d 1019, 1021 (2005).

Payment for services shall be made only pursuant to a written contract. A.R.S. § 41-2513(E). Generally, any type of contract that promotes the state's interests may be used, except that cost-plus-percentage-of-cost contracts are prohibited. A.R.S. § 41-2544. "The agency chief procurement officer shall include in solicitations and contracts all contract clauses necessary to ensure the state's interests are addressed." A.A.C. R2-7-601. The State Procurement Administrator may publish uniform terms and conditions for use in solicitations and contracts. A.A.C. R2-7-606. The solicitation shall include instructions, specifications, and terms and conditions. See, e.g., A.A.C. R27-B301(C)(3), -C301.

A provision in a construction contract that makes the contract subject to the laws of another state or requires any litigation, arbitration, or other dispute resolution proceeding to be conducted in another state is void and unenforceable. A.R.S. § 41-2583.

**5.4.8 Indemnity Agreements in Construction and Architect-Engineer Contracts.** Agreements in construction and architect-engineer contracts or subcontracts that purport to indemnify, hold harmless, or defend the promisee/contractor from or against any liability for loss or damage resulting from the promisee's/contractor's own negligence are against public policy and are void. A.R.S. § 41-2586(A). Notwithstanding subsection A, a contractor may indemnify an entity for whose account the construction contract or subcontract is not being performed and who enters into an agreement with the contractor that permits the contractor to enter on or adjacent to its property to perform the construction contract or subcontract for others. A.R.S. § 41-2586(F).

**5.4.9 Modification, Correction, and Withdrawal of Bids or Offers.** A bidder or offeror may modify or withdraw its bid or proposal in writing any time before the time and date set for bid or proposal opening. A.R.S. §§ 41-2533(F), -2534(F); A.A.C. R2-7-B304, C304, -F306. If an offer, modification or withdrawal is received after the time and date set for bid opening, it is late and will be rejected unless it would have been timely received but for the action or inaction of state personnel. See A.A.C. R2-7-B307, -C307, -F306(C), and -F307. In multistep sealed bidding, an offeror may withdraw its offer any time during phase one of the multistep sealed bidding process. A.A.C. R2-7-B316(H); see Section 5.3.8.1.4.

If a mistake in an offer is discovered after bid opening and before award, the agency chief procurement officer may permit the offeror to correct the mistake or withdraw the offer if correction or withdrawal is consistent with fair competition and not prejudicial to the interests of this state. A.A.C. R2-7-B310, -C315(D), -C315(E), -507. "After bid opening, no corrections in bid prices or other provisions of bids prejudicial to the interest of this state or fair competition shall be permitted." A.R.S. § 41-2533(F). If a mistake is discovered after award, the agency chief procurement officer, considering the best interests of the state and of fair competition, may allow correction, may cancel all or part of the award, or may deny the request for correction or withdrawal. A.A.C. R2-7-B315, -C318, -F310.

**5.4.10 Solicitation Amendments.** An agency chief procurement officer shall issue a solicitation amendment when necessary to make changes in the solicitation, correct defects or ambiguities, provide additional information or instruction, or extend the solicitation deadline. A.A.C. R2-7-B303, -B316(C), -C303, and -F303. The agency chief procurement officer must notify all persons or firms to whom the IFB, RFP or RFQ was distributed. *Id.*

**5.4.11 Cancellation of Solicitation.** Before or after bid opening, the agency chief procurement officer may cancel the procurement solicitation or reject any or all bids or proposals, in whole or in part, as specified in the solicitation, if doing so is in the best interests of this state. A.R.S. § 41-2539. Each solicitation shall state that it may be cancelled or bids or proposals rejected. A.A.C. R2-7-B301(C)(1)(j) and -C301(C)(1)(j). Notice of the cancellation must be sent to all persons who received or responded to the solicitation, and the reasons for cancellation or rejection must be made a part of the contract file. A.R.S. § 41-2539; A.A.C. R2-7-B305, -B308, -C305, -C308.

**5.4.12 Multi-term Contracts.** If the term of the contract and any conditions of renewal or extension are included in the solicitation and money is available for the initial fiscal year of the contract term, contracts for materials or services may be awarded for a period up to five years. A.R.S. § 41-2546(A). Contracts for job-order-contracting construction services may also be entered into for a period up to five years, if in the best interests of this state. *Id.* Contracts for materials or services may be for more than five years if the Director of DOA determines in writing that it would be advantageous to the state. *Id.*; A.A.C. R2-7-605. Payment and performance obligations of a contract beyond the fiscal year in which the contract first is executed are subject to the availability and

appropriation of money. A.R.S. § 41-2546(C). A multi-term contract should contain a clause providing for its automatic termination without liability beyond that authorized by statute whenever the Legislature fails to authorize the expenditure of monies to continue the term of the contract beyond the current fiscal year. *Id.*; A.A.C. R2-7-605(C).

**5.4.13 Right to Inspect Plant and Audit Records.** The state retains the right, at any reasonable time, to inspect the plant or the place of business of any contractor or subcontractor related to a contract awarded by the state. A.R.S. § 41-2547. The state is entitled to audit the books and records of any contractor or subcontractor under any contract awarded by the state to the extent that the books and records relate to the performance of that contract. A.R.S. § 41-2548(B). The state may, at reasonable times and places, audit the books and records of any person who submits cost and pricing data, as provided in A.R.S. § 41-2543, to the extent that the books and records relate to the cost and pricing data. A.R.S. § 41-2548(A). All contracts shall provide that all records relating to the contract are subject to inspection and audit by the state for five years after completion of the contract and that such records must be produced at the state offices designated in the contract. A.R.S. §§ 35-214, 41-2548.

**5.4.14 Conflict of Interest.** It is a conflict of interest for a public officer or employee of a public agency who has a substantial interest in any contract, sale, purchase, service or decision of that public agency to participate in any manner in that contract, sale, purchase, service or decision. A.R.S. § 38-503; *see also* Ariz. Att’y Gen. Op. 103-005 (“The prohibition against participating in a decision or a contract, sale, or purchase . . . applies with equal force to participating in any way in the process leading up to a decision.”). “Substantial interests means any nonspeculative pecuniary or proprietary interest, either direct or indirect, other than” one of the ten remote interests defined in A.R.S. § 38-502(1)-(10). A.R.S. § 38-502(11).

No public officer or employee of a public agency shall supply any equipment, materials, supplies, or service to that public agency except pursuant to a contract awarded through public competitive bidding. A.R.S. § 38-503(C); *see also Maucher v. City of Eloy*, 145 Ariz. 335, 701 P.2d 593 (App. 1985). Except as noted in A.R.S. § 38-503(C)(2), the requirement for competitive bidding, as defined by the Procurement Code, applies to all contracts regardless of amount, including contracts not exceeding the amount prescribed in A.R.S. § 41-2535 and contracts for purchases of \$5,000 or less. *See* Ariz. Att’y Gen. Op. 106-002 (purchases from employees must follow procurement code procedures regardless of the procurement’s total cost).

A person who violates these prohibitions may be guilty of a felony (intentional or knowing violation) or a misdemeanor (reckless or negligent violation) and shall forfeit public office or employment. A.R.S. § 38-510; *see* Sections 5.8.2 and 5.8.3. A public agency may void any contract entered into in violation of these prohibitions. A.R.S. § 38-506(A). The State may cancel any contract within three years after its execution if any person significantly involved in the contract on behalf of the State is an employee or consultant of

the contractor at any time while the contract or any extension of the contract is in effect. A.R.S. § 38-511.

Any state officer or employee who has a significant role (as defined in A.R.S. § 41-741(14)) in the procurement of materials, services or construction is prohibited from accepting employment or having discussions concerning employment or other direct benefit with any person or entity lobbying for or potentially responding or responding to a solicitation. This prohibition applies from the time the first non-disclosure agreement is signed for that solicitation until one year after the delivery of goods or services or the beginning of construction. A.R.S. § 41-753(D); see *also* A.R.S. § 41-2517. Violation of the statute is a class 2 misdemeanor and may be cause for suspension or dismissal and becoming ineligible for employment with the state for five years. A.R.S. § 41-753(E), (G)-(H).

**5.4.15 Personal Use Prohibition.** “State employees and public officers shall not purchase materials or services for their own personal or business use from contracts entered into by the state unless authorized in writing by the Director [of DOA].” A.A.C. R2-7-204.

**5.4.16 Prohibition Against Discrimination.** Contractors must agree to comply with Chapter 9, Title 41, Arizona Revised Statutes (Civil Rights) and Executive Order No. 2009-9 (amending Executive Order No. 75-5 and 99-4; current version at Historical and Statutory Notes, A.R.S. § 41-1463).

**5.4.17 On-line Bidding.** If an agency chief procurement officer determines that on-line bidding is more advantageous than other procurement methods, the procurement officer may use on-line bidding to obtain bids electronically. A.R.S. § 41-2672.

**5.4.18 No-Boycott-of-Israel Certification.** “A public entity may not enter into a contract with a company to acquire or dispose of services, supplies, information technology or construction unless the contract includes a written certification that the company is not currently engaged in, and agrees for the duration of the contract to not engage in, a boycott of Israel.” A.R.S. § 35-393.01(A). In implementing the above, public entities should follow the statute’s scope and defined terms.

First, the statute covers actions by a “company.” Company is defined as the business types listed in A.R.S. § 35-393(2), and does not apply to natural persons in their non-business capacities. A public entity may contract with a business so long as the business is not engaged in a “boycott of Israel,” even if a natural person who owns the company is engaged in a boycott in their personal (i.e., non-business) capacity. Similarly, the definition of company includes an “affiliate,” but companies are not affiliates in this context merely because they share natural-person owner(s) if the companies are operated separately.

Second, the statute relates to a “boycott of Israel.” “Boycott,” as defined in A.R.S. § 35-393(1), refers solely to conduct and does not include any speech related to



boycotts. Moreover, “boycott of Israel,” as used in A.R.S. § 35-393.01(A), means a boycott that is directed at “Israel or with persons or entities doing business in Israel or in territories controlled by Israel.” A.R.S. § 35-393(1). A boycott is not a “boycott of Israel” if it targets multiple countries and does not principally target Israel or those doing business with them. Finally, to qualify as a “boycott” under § 35-393(1)(a), the actions must be “[i]n compliance with or adherence to calls for a boycott of Israel other than those boycotts to which [50 U.S.C. § 4607(c)] applies.” A boycott that is self-generated or differs substantially in its scope from the calls for a boycott would not be covered.

**5.5 Materials Management.** DOA is charged with managing all state materials during their entire life cycle, including disposing of excess and surplus materials. A.R.S. §§ 41-2602 to -2606; A.A.C. R2-15-301 and -303 to -310.

**5.5.1 Disposition of Surplus Materials.** No using agency, except the Department of Public Safety, the Arizona Exposition and State Fair Board, and the Arizona Correctional Industries may transfer, sell, trade-in, condemn, or otherwise dispose of materials owned by the State without written authorization of the Surplus Property Administrator at DOA. A.R.S. §§ 3-1007(A)(1), 41-1623(E), 41-1624(B), 41-1713(B)(6); A.A.C. R2-15-303(B). Using agencies must notify the Surplus Property Administrator of all excess and surplus materials in the manner prescribed by the Surplus Property Administrator. A.A.C. R2-15-303(C). The Surplus Property Administrator shall then dispose of the excess and surplus materials through competitive bidding or one of the other methods identified in A.A.C. R2-15-303(E).

## **5.6 Legal and Contractual Remedies.**

**5.6.1 Exclusive Remedy.** Any solicitation or contract claim or controversy made by any bidder, offeror, or contractor may be asserted against the State or an agency of the State only under the procedures set forth in Article 9 of the Arizona Procurement Code and the rules promulgated thereunder. A.R.S. § 41-2615; see A.A.C. R2-7-A901 to -A912, -B901 to -B905, -C901 to -C911, -D901 to -D902. Under no circumstances may a state governmental unit settle a claim or make a payment to a bidder, offeror, or contractor making a claim or protest without complying with the applicable rules and procedures. The statutes authorizing actions against the State (A.R.S. §§ 12-820 to -826) and the Uniform Arbitration Act (A.R.S. §§ 12-1501 to -1518) do not apply to a claim against the State relating to a procurement governed by the Procurement Code. *Id.* A claim or controversy arising from a procurement not governed by the Procurement Code is addressed in Section 13.6.5.

## **5.6.2 Protested Solicitations and Awards.**

**5.6.2.1 Procurement Officer.** The procedure for resolving protested solicitations and awards is authorized by A.R.S. §§ 41-2611 through 41-2617 and found in A.A.C. R2-7-A901 to -A912. A protest is commenced when an "interested party," *i.e.*, an offeror or prospective offeror whose economic interest is affected (see

A.A.C. R2-7-101(29)), files a written protest with the agency chief procurement officer, with a copy to the State Procurement Administrator. A.A.C. R2-7-A901(B). The written protest must contain, among other things, a detailed statement of the legal and factual grounds of the protest and the form of relief requested. *Id.* In most cases, absent a written extension of time from the agency chief procurement officer, protests of the terms of a solicitation must be filed *before* the applicable bid opening or the closing date of the solicitation. A.A.C. R2-7-A901(C) and –A901(E); *see also Arizona’s Towing Prof’ls, Inc. v. State*, 196 Ariz. 73, 76, ¶ 15, 993 P.2d 1037, 1040 (App. 1999) (“Requiring protests related to errors apparent on the face of the bid to be filed before the bid opening protects the integrity of the bid process.”). In the remaining cases, absent an extension, protests must be filed within ten days after the agency chief procurement officer makes the procurement file available to the public. A.A.C. R2-7-A901(D)–(E). The agency chief procurement officer may consider untimely protests only for good cause. A.A.C. R2-7-A901(F). “The agency chief procurement officer shall immediately give notice of a protest to all offerors.” A.A.C. R2-7-A901(G). The agency chief procurement officer may stay all or part of a procurement if there is a reasonable probability the protest will be upheld or if it is in the best interest of the State. A.A.C. R2-7-A902(C). If a protest is filed before the solicitation due date, the contract award, or performance of the contract, the agency chief procurement officer shall make a written determination, with copies to all interested parties, either to stay all or part of a procurement if there is a reasonable possibility that the protest will be upheld or that a stay is in the best interests of the state, or to permit the solicitation, award or contract performance to proceed. A.A.C. R2-7-A902(A)–(B). If the stay request is denied by the agency chief procurement officer, the protestant has ten days from the date that it was notified of the denial to seek a stay from the state procurement administrator. A.A.C. R2-7-A902(D).

“The agency chief procurement officer has the authority to resolve a protest.” A.A.C. R2-7-A903(A). Within fourteen days after a protest has been filed, unless extended for a period not to exceed an additional thirty days, the procurement officer must issue a written decision explaining the reasons for the decision, and if the protest is sustained in whole or in part, select one of the remedies in A.A.C. R2-7-A904. A.A.C. R2-7-A903. The decision must be accompanied by a statement that the protesting party may appeal the decision to the Director of DOA within thirty days from the receipt of the decision. A.A.C. R2-7-A903(B). If the agency chief procurement officer fails to issue a decision within these time limits, the protestor may proceed as if the agency issued an adverse decision. A.A.C. R2-7-A903(E).

**5.6.2.2 Appeals to the Director.** An interested party who is dissatisfied with a decision of the agency chief procurement officer may file an appeal with the Director of DOA within thirty (30) days from the date the decision is received. A.A.C. R2-7-A905(A). The appeal must contain the information listed in A.A.C. R2-7-A905(B). The Director of DOA may consider untimely appeals for good cause. A.A.C. R2-7-A905(C). Within twenty-one days after the appeal is filed, the agency chief procurement officer must file a complete report responding to the appeal. A.A.C. R2-7-A908(A). The response must include the information listed in A.A.C. R2-7-A908(A). The appellant may file comments to the procurement officer’s report within ten days of receiving that report.

A.A.C. R2-7-A908(C). By statute, the Director of DOA shall make a decision on the appeal within 42 days after the agency report and any comments are filed. If all interested parties agree, the Director may grant an extension of up to 14 days. A.R.S. § 41-2611(B). If the Director of DOA fails to make a decision within the statutory time frame, the appeal will be referred for hearing at the Office of Administrative Hearings. *Id.* See Section 5.6.5. If the Director of DOA sustains the appeal, in whole or in part, and determinations that the action in question “does not comply with procurement statutes and regulations the Director shall implement remedies as provided in A.A.C. R2-7-A904 or A.A.C. R2-7-A910” (informal settlement conference). A.A.C. R2-7-A909. The Director of DOA may also dismiss an appeal, in whole or in part, without scheduling a hearing at the Office of Administrative Hearings if the appeal “does not state a valid basis for protest”; “is untimely as prescribed under R2-7-A905); or “attempts to raise issues not raised in the protest.” A.A.C. R2-7-A911(A). Any appeals that have not been resolved under A.A.C. R2-7-A909 to -A911, shall be resolved as contested cases pursuant to A.R.S. § 41-1092.07. A.A.C. R2-7-A912.

### **5.6.3 Contract Claims and Controversies Between a Contractor and the State.**

All contract claims and controversies arising under a contract subject to the Procurement Code shall be resolved as provided in A.A.C. R2-7-B901 to -B905. A.R.S. §§ 41-2611, -2615. A claimant must file a claim with the agency chief procurement officer within 180 days after the claim arises for it to be considered. A.A.C. R2-7-B901(A). The claim shall include, among other things, a detailed statement of the legal and factual grounds of the protest and the form and dollar amount of relief requested. *Id.* The agency chief procurement officer has the authority to settle the problem by mutual agreement, subject to prior written approval by the State Procurement Administrator for claims in excess of the amount prescribed in A.R.S. § 41-2535. A.A.C. R2-7-B901(B). If the claimant and the agency chief procurement officer cannot settle the claim, the procedures discussed in Sections 5.6.3.1 and 5.6.3.2 must be followed.

**5.6.3.1 Claims Initiated by the Contractor.** Once the contractor determines that it cannot reach a settlement with the procurement officer, the contractor may request a written final decision of the agency chief procurement officer. A.A.C. R2-7-B902(A). The agency chief procurement officer must issue the decision within sixty days, and the decision must include the items listed in A.A.C. R2-7-B902(B). *Id.* If the agency chief procurement officer fails to issue a decision within the time prescribed, the contractor may proceed as if the agency chief procurement officer had issued a decision adverse to the contractor. A.A.C. R2-7-B903.

If the contractor disagrees with the decision of the agency chief procurement officer, the contractor has thirty days from receipt of the decision to file an appeal with the Director of DOA. A.A.C. R2-7-B904(A). The appeal shall contain “[t]he precise factual or legal error in the decision of the agency chief procurement officer.” A.A.C. R2-7-B904(B)(3). The agency chief procurement officer then has fourteen days after the appeal is filed to file a complete report on the appeal with the Director of DOA and mail a copy of the report to

the claimant. A.A.C. R2-7-B904(C). Hearings are conducted as contested cases pursuant to the Administrative Procedure Act. A.A.C. R2-7-B904(D). See Section 5.6.5.

**5.6.3.2 Claims Initiated by the State.** When an agency chief procurement officer determines that a claim asserted by the State will not be resolved by mutual agreement, the agency chief procurement officer must promptly refer the claim to the Director of DOA for a hearing. A.A.C. R2-7-B905. See Section 5.6.5.

**5.6.4 Debarring or Suspending a Person from Participating in State Procurements.** The Director of DOA has the sole authority to debar or suspend contractors. A.A.C. R2-7-C901. Section 41-2613, A.R.S., and A.A.C. R2-7-C901 to –C911 establish the authority and procedures for the Director of DOA to suspend or debar a contractor from participating in state procurements. The Director of DOA may suspend a contractor for up six months or debar a contractor for up to three years. A.R.S. § 41-2613(A); A.A.C. R2-7-C903. The grounds for suspension or debarment include, but are not limited to, conviction of a criminal offense arising from obtaining or attempting to obtain a contract; embezzlement; theft; fraudulent schemes, artifices, and practices; bid rigging; perjury; forgery; bribery; falsification or destruction of records; receiving stolen property; any offense indicating a lack of business integrity or honesty, violation of antitrust statutes, violations of contract provisions, or debarment by another governmental entity. A.R.S. § 41-2613(B).

Any suspension of more than 35 days requires written notice that includes the items listed in A.A.C. R2-7-C910. A.A.C. R2-7-C909. A contractor must file a request for hearing within 30 days of receipt of a notice of suspension. A.A.C. R2-7-C910(C). If debarment is proposed, the Director must provide written notice to the contractor within seven days. A.A.C. R2-7-C904(A). The person to be debarred has ten days from the receipt of the Director's notice of proposed debarment to file a request for hearing. A.A.C. R2-7-C904(B). During the period when debarment is pending, the Director shall not suspend the contractor absent compelling reasons necessary to protect state interests. A.A.C. R2-7-C908(C). The hearings required for debarment and suspension must be conducted as provided in A.A.C. R2-7-C904(C). See Section 5.6.5

The Director of DOA shall maintain a master list of persons debarred or suspended. A.A.C. R2-7-C911. Upon a written determination that participation of a debarred person is advantageous to the state, the Director of DOA may allow a debarred person to participate in state contracts on a limited basis. A.A.C. R2-7-C907. The Director of DOA may also reinstate a debarred person or rescind the debarment upon written determination that the cause for the debarment no longer exists. A.A.C. R2-7-C906(A). The Director's reinstatement decision is not subject to administrative review. A.A.C. R2-7-C906(E).

**5.6.5 Hearings Under the Procurement Rules.** Hearings conducted pursuant to the Procurement Code are governed by the Arizona Administrative Procedure Act (A.R.S. § 41-1092 through § 41-1092.12) and A.A.C. R2-7-D901 and -D902. A.R.S. § 41-2611. The Director of DOA may direct the parties to engage in settlement

negotiations or alternative dispute resolution procedures before scheduling a hearing. A.A.C. R2-7-D901. Generally, the Director of DOA refers the matters to the Office of Administrative Hearings where a hearing officer conducts prehearings, hearings, and related matters. At the conclusion of the hearing, the hearing officer prepares and submits proposed findings of fact and conclusions of law (which must specifically address the agency's authority to make the decision consistent with A.R.S. § 41-1030), and a recommended decision to the Director of DOA. A.R.S. § 41-1092.07(F)(7) and A.A.C. R2-7-D901. The Director of DOA may accept, modify, or reject the recommendation in whole or in part. A.R.S. § 41-1092.08(B).

**5.6.6 Rehearing.** Any party aggrieved by the Director's decision, including an agency chief procurement officer, may file a written request for rehearing of a decision within thirty days after receipt of the decision. A.R.S. § 41-1092.09(A); A.A.C. R2-7-D902(A).

**5.6.7 Judicial Review of Administrative Decisions.** Within thirty-five days of the Director of DOA's final decision, any party to the proceeding before the Director may file a complaint in Maricopa County Superior Court seeking judicial review of the Director's decision. A.R.S. § 41-2614; see A.R.S. § 12-904(A). Judicial review is governed by A.R.S. §§ 12-901 to -914. *Id.*

## **5.7 Intergovernmental Procurement.**

**5.7.1 Cooperative Purchasing.** Any public procurement unit<sup>2</sup> may participate in, sponsor, conduct, or administer a cooperative purchasing agreement with one or more public procurement units or external procurement activities to procure any materials, services, professional services, construction or construction services. A.R.S. § 41-2632(A). Such an agreement is exempt from A.R.S. § 11-952(D) concerning intergovernmental agreements. *Id.* Subject to the rules promulgated on cooperative purchasing, parties to a cooperative purchasing agreement may make purchases under the terms of a contract between a vendor and a public procurement unit or external procurement activity without complying with the requirements of A.R.S. §§ 41-2533, 2534, or 2535. A.R.S. § 41-2632(A)(6). Before participating in a cooperative purchasing agreement, agency chief procurement officers must submit a written request to the State Procurement Administrator. A.A.C. R2-7-1001(B). Agency chief procurement officers may use Arizona state contracts without a cooperative purchasing agreement. A.A.C. R2-7-1001(A).

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<sup>2</sup> A “[p]ublic procurement unit’ means either a local public procurement unit, the department [of Administration], any other state or an agency of the United States.” A.R.S. § 41-2631(5). A “local public procurement unit’ means any political subdivision, any agency, board, department or other instrumentality of such political subdivision and any nonprofit corporation created solely for the purpose of administering a cooperative purchase under this article.” A.R.S. § 41-2631 (3).

Parties under a cooperative purchasing agreement may cooperatively use materials or services; commonly use or share warehousing facilities, capital equipment, and other facilities; provide personnel; and make available to other public procurement units informational, technical, or other services or software that may assist in improving the efficiency or economy of procurement. A.R.S. § 41-2632(A). A public procurement unit requesting personnel or services must pay the public procurement unit providing the personnel or services the costs of providing the personnel or services, if requested. *Id.* An agency chief procurement officer administering a cooperative purchasing agreement must ensure that the cooperative purchasing agreement includes the required provisions set forth in A.A.C. R2-7-1002(A).

**5.7.1.1 Compliance with Procurement Code.** "If the public procurement unit administering a cooperative purchase complies with [the Procurement Code], any public procurement unit participating in such a purchase is deemed to have complied with [the Procurement Code]." A.R.S. § 41-2634. "Public procurement units may not enter a cooperative purchasing agreement for the purpose of circumventing [the Procurement Code]." *Id.*

**5.7.1.2 Controversies.** Controversies arising under a cooperative purchasing agreement in which the State is a party must be resolved pursuant to A.R.S. § 41-2611 through § 41-2617. A.R.S. § 41-2635; see *also* Section 5.6.

**5.7.2 Purchasing from the Arizona Industries for the Blind and from Arizona Correctional Industries.** A committee appointed by the Director of DOA designates the materials and services provided by certified nonprofit agencies for disabled individuals (as defined in A.R.S. § 41-2636(G)(1) and A.A.C. R2-7-1005 and -1006), and the Arizona Correctional Industries that satisfy state governmental unit requirements and establishes the purchase price for such materials and services offered for sale. A.R.S. § 41-2636(A); A.A.C. R2-7-1003 to -1007, -1009 to -1010. State governmental units must purchase these materials and services if they are readily available. A.R.S. § 41-2636(C); Ariz. Att'y Gen. Op. 179-35. Purchases of approved materials and services directly from certified nonprofit agencies for disabled individuals, and the Arizona Correctional Enterprises are exempt from competitive bidding. A.R.S. § 41-2636 (D); A.A.C. R2-7-1009.

**5.7.3 General Services Administration Contracts.** The Director of DOA or the director's designee may evaluate general services administration (GSA) contracts and may authorize agencies to purchase materials and services from approved GSA contracts. A.R.S. § 41-2558; A.A.C. R2-7-G304. If the agency chief procurement officer makes a written determination that use of the GSA contract is in the best interests of the state, such a contract may be used so long as it satisfies the criteria set forth in A.A.C. R2-7-G304(A). *Id.*

## **5.8 Violation of the Procurement Code.**

**5.8.1 Enforcement of the Procurement Code.** The Attorney General enforces the Procurement Code on behalf of the State. A.R.S. § 41-2616(D).

**5.8.2 Civil Penalty.** "A person who contracts for or purchases any material, services, construction or construction services in a manner contrary to the requirements of [the Procurement Code], [and] the rules adopted pursuant to [the Procurement Code] . . . is personally liable for the recovery of all public monies paid plus twenty percent of such amount and legal interest from the date of payment and all costs and damages arising out of the violation." A.R.S. § 41-2616(A).

A person serving on an evaluation committee who fails to disclose unauthorized contact with a competing vendor or who fails to provide accurate information on the required disclosure statement is subject to a civil penalty of at least one thousand dollars but not more than ten thousand dollars. A.R.S. § 41-2616(C).

Any state officer or employee who has a significant role (as defined in A.R.S. § 41-741 (14)) in the procurement of materials, services or construction is prohibited from accepting or even having discussions concerning employment or other direct benefit with any person or entity lobbying for or potentially responding or responding to a solicitation from when the first non-disclosure agreement is signed for that solicitation until one year after the delivery of goods or services or the beginning of construction. A.R.S. § 41-753(D); *see also* A.R.S. § 41-2517. Violation of the statute may be cause for suspension or dismissal and becoming ineligible for employment with the State for five years. A.R.S. § 41-753(E), (G), (H).

**5.8.3 Criminal Penalty.** "A person who intentionally or knowingly contracts for or purchases any material, services, construction or construction services pursuant to a scheme or artifice to avoid the requirements of [the Procurement Code or the] rules adopted pursuant to [the Procurement Code] . . . is guilty of a class 4 felony." A.R.S. § 41-2616(B). Any state officer or employee who has a significant role (as defined in A.R.S. § 41-741 (14)) in the procurement of materials, services or construction is prohibited from accepting or even having discussions concerning employment or other direct benefit with any person or entity lobbying for or potentially responding or responding to a solicitation from when the first non-disclosure agreement is signed for that solicitation until one year after the delivery of goods or services or the beginning of construction. A.R.S. § 41-753(D); *see also* A.R.S. § 41-2517. Violation of the statute is a class 2 misdemeanor. A.R.S. § 41-753(E), (G), (H).

**5.8.4 Reporting of Anticompetitive Practices.** "If for any reason collusion or other anticompetitive practices are suspected among any bidders or offerors, a notice of the relevant facts shall be transmitted to the director [of DOA] and the attorney general." A.R.S. § 41-2549.

## **5.9 Procurement and the Antitrust Laws.**

**5.9.1 The Procurement Officer's Function.** The procurement officer is in the best position to detect and prevent anticompetitive activity in government purchasing and should therefore be familiar with the antitrust laws and be able to recognize anticompetitive practices. The procurement officer has three responsibilities under antitrust law: 1) to prevent claims that he or she or the agency he or she represents has engaged in unlawful anticompetitive conduct; 2) to detect anticompetitive conduct by vendors; and 3) to ensure that all procurement procedures protect and enhance competition.

The following sections discuss state and federal antitrust laws with an emphasis on their application to the operations of state government. The sections will identify some of the conduct prohibited under antitrust law, discuss remedies available to those injured by restraints of trade, and generally assist government employees in understanding antitrust laws and recognizing unlawful or anticompetitive practices.

**5.9.2 Objectives of the Antitrust Laws.** The objectives of the antitrust laws are to maintain competition, to protect consumer choice, and to reduce the concentration of inordinate wealth and economic resources in too few firms. Competition exists when a large number of firms are striving to attract customers.

In a competitive market, the consumer, including the government purchaser, attains the highest quality goods at the lowest possible prices. Where vendors must compete, they cannot elevate prices and reduce quality without suffering a loss of customers. Only if there are readily available alternative sellers can customers switch suppliers. This ability to switch drives the market and keeps downward pressure on price and upward pressure on quality. Competition also promotes free access to the marketplace, induces new firms to enter, promotes better market performance, encourages new technology and high productivity, and conserves resources.

Because public procurement is a large component of all purchasing in any economy, diligent procurement officers promote competition and provide an important public service.

## **5.9. Federal Antitrust Laws.**

**5.9.3.1 The Sherman Antitrust Act.** The Sherman Antitrust Act was passed in 1890 and has remained virtually unchanged since its enactment. Sherman Antitrust Act, Ch. 647, §§ 1-8, 26 Stat. 209 (1890) (current version at 15 U.S.C. §§ 1-7) (Sherman Act). The Sherman Act is the primary federal antitrust law and prohibits contracts and conspiracies in restraint of trade, conspiracies to monopolize, and attempts to monopolize. Section 2 of the Sherman Act proscribes monopolization. It applies to all "persons," including governments and their employees. 15 U.S.C. § 15. Both the United States Department of Justice and the Arizona Attorney General may enforce the Sherman Act in federal court, and injured private parties may also sue for treble damages. 15 U.S.C. §§ 15, 15a, 15c. Although the Sherman Act, and all federal antitrust law, applies only to interstate commerce, the courts have found interstate commerce to be present in



virtually every commercial transaction. *See, e.g., Hosp. Bldg. Co. v. Trustees of Rex Hosp.*, 425 U.S. 738 (1976).

Since 1974, a violation of the Sherman Act has been a felony, prosecutable by the United States Department of Justice. 15 U.S.C. §§ 1-3. An offense carries a maximum fine of \$100 million for corporations and \$1 million for individuals. *Id.* Individuals found guilty can be imprisoned for up to ten years, fined, or both. *Id.* Highway construction bid-rigging cases have typically been prosecuted criminally.

**5.9.3.2 The Clayton Antitrust Act.** The Clayton Antitrust Act was enacted in 1914 to supplement the Sherman Act. Clayton Act, ch. 323, §§ 1-8, 11-16, 20, 26-27, 38 Stat. 730 (1914) (current version at 15 U.S.C. §§ 12, 13, 14-19, 21-27); 29 U.S.C. § 52, 53 (Clayton Act). It prohibits price discrimination (Robinson-Patman Price Discrimination Act, ch. 592, § 2-4, 49 Stat. 1526 (1936) (current version at 15 U.S.C. §§ 13-13b, 21a), tying arrangements, certain mergers and acquisitions, interlocking directorates between competing companies, and certain exclusive deals and refusals to deal where their effect is to substantially lessen competition or to tend to create a monopoly in interstate commerce.

The Clayton Act permits private parties to sue for treble damages and costs including attorney's fees. 15 U.S.C. § 15. Private litigants and state Attorneys General can recover three times the actual damages from an unlawful trade restraint. 15 U.S.C. § 15c. The Clayton Act addresses the relationship between private and public lawsuits and gives the state Attorneys General the right to sue as *parens patriae*, a representative of consumers in their state. *Id.*

**5.9.3.3 The Federal Trade Commission Act.** The Federal Trade Commission Act, which prohibits unfair competition, was passed in 1914 and amended in 1994. Federal Trade Commission Act, ch. 311, §§ 1-26, 38 Stat. 717 (1914); Pub. L. 103-312, § 2, 108 Stat. 1691 (1994) (current versions at 15 U.S.C. §§ 41-58) (FTC Act). It created the Federal Trade Commission (FTC). The FTC Act is not on its face an antitrust law, but has been used to prosecute, through administrative action, conduct that restrains trade. 15 U.S.C. § 45. The FTC is an administrative body that issues cease and desist orders, which are enforceable in federal courts. *Id.* Private persons cannot sue under the FTC Act. *Fulton v. Hecht*, 580 F.2d 1243, 1248 (5th Cir. 1978).

#### **5.9.4 State Antitrust Laws.**

**5.9.4.1 Uniform State Antitrust Act.** The Uniform State Antitrust Act, A.R.S. §§ 44-1401 to 1416, was adopted by the Arizona Legislature in 1974 pursuant to a provision in art. XIV, § 15 of the Arizona Constitution requiring the Legislature to enact laws prohibiting monopolies, trusts, and certain direct or indirect anticompetitive conduct. The Legislature added A.R.S. § 44-1416 in 1993. The Act forbids contracts, combinations, and conspiracies "in restraint of, or to monopolize, trade or commerce, any part of which is within [Arizona]." A.R.S. § 44-1402. It also prohibits "[t]he establishment, maintenance or use of a monopoly" and an attempt to monopolize Arizona trade or commerce for the

purpose of excluding competition or of fixing prices. A.R.S. § 44-1403. The Act is to be construed uniformly with other states having similar Acts, and, in construing the Act, Arizona courts may use federal legal precedent as a guide. A.R.S. § 44-1412.

The Attorney General, or a county attorney with the Attorney General's permission, may enforce the Act and seek injunctions and civil penalties of up to \$150,000 per violation. A.R.S. § 44-1407. The Attorney General has the power to investigate violations of the Act and may issue Civil Investigative Demands (CIDs) seeking testimony and documents, and may enforce the CIDs in state court. A.R.S. §§ 44-1406, 1414.

The State, a political subdivision, or any agency may sue for injunctions, damages, costs, and attorney's fees. A.R.S. § 44-1408(A). A private party may sue for the same, and, if the violation is "flagrant," the private party may recover up to three times the damages sustained. *Id.* § (B).

An action for civil penalties under the Act must be brought within four years of the violation, A.R.S. § 44-1410, but a private party has one year after the conclusion of a state prosecution within which to bring an action for damages. *Id.* § (B).

For most contracts, combinations, or conspiracies, the Act does not provide a criminal penalty. In 1993, however, the Legislature made it a Class 4 felony for a person to enter a contract, combination, or conspiracy to restrain trade in connection with a government contract or subcontract. A.R.S. § 44-1416(C). Furthermore, criminal liability for bid-rigging can be found in the bid-rigging statutes, A.R.S. §§ 34-251 to 258, specifically at § 34-252.

**5.9.4.2 Bid-Rigging Statutes.** Arizona Revised Statutes Sections 34-251 to 34-258 are sometimes referred to as the bid-rigging statutes. The Attorney General or a county attorney may enforce these statutes. A.R.S. § 34-258.

It is a class 4 felony for any person to enter into a contract, conspiracy, or other trade restraint that violates the Uniform Antitrust Act if the transaction involves a government contract for the purchase of equipment, labor, or materials or a contract for the construction, repair, or alteration of highways, buildings, or structures. A.R.S. § 34-252(A). The statute applies to any illegal subcontract with a contractor or "proposed" contractor for a governmental agency. *Id.* §§ (A) (1), (A) (2); see also A.R.S. § 44-1416(C).

The government agency that has entered into or been the "subject" of an unlawful anticompetitive contract may sue the parties to the contract to recover damages. A.R.S. § 34-254(A). The agency may recover treble damages or ten percent of the contract price. *Id.* § (B). The cause of action accrues only when the illegal act is discovered. *Id.* § (C).

Persons (including corporations) convicted under the bid-rigging statutes are barred from further contracts with any governmental agency, either directly or indirectly,

A.R.S. § 34-255(A), for up to three years, and can for that time period also be barred from employment by any corporation engaged in public works contracting or public works supplying. *Id.* § (B). An agency can suspend any person convicted of antitrust violations under Arizona law, federal law, or the law of another state, or any officer, employee, or affiliate of that person, from bidding to that agency. A.R.S. § 34-257. A person convicted of a violation of A.R.S. §§ 34-252 or 44-1401 *et seq.* cannot serve as a registrar of contractors or on the contractors' recovery fund board. A.R.S. § 34-256.

**5.9.5 Conduct Illegal Under the Antitrust Laws.** Various types of conduct may violate the antitrust laws. If an activity restrains trade, is anticompetitive, excludes competing vendors, limits consumer choice, favors dominant firms, creates barriers to entry by new competitors, protects existing market shares, forces purchase of unwanted goods, involves economic coercion, or reduces price competition, it may be unlawful.

Every contract is in a sense a restraint of trade. However, the courts have construed the antitrust laws to proscribe only *unreasonable* restraints of trade and competition. *See, e.g., Standard Oil Co. v. United States*, 221 U.S. 1 (1911). Two types of restraints have been identified. First, there are *per se* type restraints, which are illegal on their face without proof of actual harm to competition. *Wedgewood Inv. Corp. v. Int'l Harvester Co.*, 126 Ariz. 157, 613 P.2d 620 (App. 1979). These include price fixing, bid rigging, territorial market allocation, some types of tying arrangements, and some horizontal boycotts. *See, e.g., Nat'l Soc'y. of Prof'l Eng'rs v. United States*, 435 U.S. 679 (1978) (ban on competitive bidding); *United States v. Topco Assocs., Inc.*, 405 U.S. 596 (1972) (market division); *United States v. Trenton Potteries Co.*, 273 U.S. 392 (1927) (price fixing).

*Per se* cases almost always involve horizontal trade restraints. Horizontal restraints are those that are implemented by members of, and harm competition at, the same level of distribution. *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150 (1940). Thus, agreements between retailers or between manufacturers are horizontal. *Per se* conduct is illegal regardless of whether the participants intend to harm competition and whether competition is in fact harmed. *Id.* The mere formation of the contract or conspiracy is illegal. *N. Pac. Ry. v. United States*, 356 U.S. 1 (1958). Even a well-intentioned activity that has the effect of stifling price can be price fixing. *Nat'l Soc'y of Prof'l Eng'rs v. United States*, 435 U.S. 679 (1978). In recent years, however, courts have used the *per se* analysis less frequently. *United States v. Bestway Disposal Corp.*, 724 F. Supp. 62, 66 n.6 (W.D.N.Y. 1988).

The second, and most common, type of trade restraint falls into the "rule of reason" category, where the restraints are unlawful only if, in fact, competition is unreasonably restrained. *Id.* Vertical restraints are often found to be governed by the rule of reason. *Cont'l T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977). An anticompetitive arrangement between a manufacturer and a retailer is a vertical restraint usually judged by the rule of reason; if competition in the general market is not harmed, the restraint is not unreasonable and not unlawful. Some conduct that restrains trade can be justified under

the rule of reason by procompetitive efficiencies that result from the conduct. *Cont'l T.V., Inc.*, 433 U.S. at 54.

**5.9.5.1 Price Fixing.** Any arrangement between competitors that interferes with the free market determination of price of any product is illegal. *United States v. Serta Assocs., Inc.*, 296 F. Supp. 1121 (N.D. Ill. 1968), *aff'd mem.*, 393 U.S. 534 (1969). These arrangements are *per se* unlawful, even if the purpose of the agreement is to lower prices. *Id.* If the prices are set by agreement between parties who, in a competitive market, would make independent price decisions, and who are not driven by the laws of supply and demand, the arrangement violates antitrust law. *Ariz. v. Maricopa Cnty. Med. Soc'y*, 457 U.S. 332 (1982). For example, agreements among competitors to set prices, ranges of prices, to manipulate bid prices, to dictate when prices rise or fall, or to stabilize prices and stop price wars are *per se* illegal. *United States v. Trenton Potteries Co.*, 273 U.S. 392 (1927); *Ariz. v. Maricopa Cnty. Med. Soc'y*, 457 U.S. 332 (1982).

A vertical price-fixing agreement, also called a resale price maintenance agreement, arises when manufacturer and its distributor agree that the distributor will not sell the manufacturer's goods below a minimum price ("minimum resale price maintenance") or above a maximum price ("maximum resale price maintenance") set by the manufacturer. Even though the parties to these price fixing agreements were not competitors, courts treated vertical price fixing agreements as *per se* violations of antitrust law. That changed in 1997 when the United States Supreme Court ruled that maximum resale price agreements would no longer be considered *per se* unlawful, and would, instead, be evaluated under the "rule of reason." *State Oil v. Khan*, 522 U.S. 3 (1997). Minimum resale price agreements, however, were still treated as *per se* violations of antitrust law until 2007, when the The United States Supreme Court ruled that they would also be evaluated under the "rule of reason". See, *Leegin v. PSKS, Inc.*, 551 U.S. 877 (2007).

Sometimes price manipulation occurs through third parties, as where the trade press is used as a vehicle to arrange coordinated price moves. *In re: Petroleum Prods. Antitrust Litigation*, 906 F.2d 432 (9th Cir. 1990). *But see State ex rel. La Sota v. Ariz. Licensed Beverage Ass'n, Inc.*, 128 Ariz. 515, 627 P.2d 666 (1981) (court found publisher of trade magazine that published price lists did not violate antitrust laws). A government procurement officer can be used as a price-fixing vehicle if prices are quoted to him or her and he or she communicates these to competing vendors prior to bidding. Procurement officers should not engage in any activity that would aid vendors in learning their competitors' bid prices.

Price fixing can be prosecuted criminally under federal law. See Section 5.9.3.1.

**5.9.5.2 Bid Rigging.** Horizontal agreements among competitors to manipulate the competitive bidding process are *per se* illegal. *United States v. Brown*, 936 F.2d 1042 (9th Cir. 1991); *Harkins Amusement Enters. v. Gen. Cinema Corp.*, 850 F.2d 477 (9th Cir. 1988). Bid rigging can involve agreements not to bid, to bid at set prices, to rotate bidding, to allocate customers, to manipulate the general contractor/subcontractor relationships, to

give kickbacks to procurement officials, to give special favors for special treatment, and any other arrangements that interfere with free competitive bidding. *Addyston Pipe & Steel Co. v. United States*, 175 U.S. 211 (1899). On the other hand, joint ventures among entities that would not be able to bid independently can in some instances be seen as procompetitive if they have the effect of increasing the number of competitive bids.

Rigged bids result in higher prices and lower quality and service for the agency buyers because they eliminate the risk to the vendor of losing the bid by charging too much or offering inferior products or services.

Procurement officers should be alert for signs of bid rigging. Some ways of detecting bid rigging are described below. Government employees involved in any aspect of procurement should be careful in their contacts with vendors to prevent vendors from obtaining inside information or receiving special favors, such as bid specifications favorable to individual firms.

Bid rigging usually is prosecuted criminally by both federal and state officials.

**5.9.5.3 Division of Markets - Territorial Market Allocation.** Like price fixing, a horizontal agreement among competitors to eliminate competition by allocating markets is *per se* unlawful. *United States v. Topco Assocs. Inc.*, 405 U.S. 596, 608 (1972). "Such agreements are anticompetitive regardless of whether the parties split a market within which both do business or whether they merely reserve one market for one and another for the other." *Palmer v. BRG of Georgia, Inc.*, 498 U.S. 46, 49-50 (1990). These agreements usually divide markets territorially, by geographic regions. They can, however, divide markets by product type or brand or by type of customer. Rotating bids can be a form of market allocation.

Franchises, or exclusive rights to sell in a territory, are often part of distribution systems imposed by manufacturers in a vertical relationship. These can result in a lack of competition both between manufacturers and among distributors of the same manufacturer's products. Most garden variety exclusive franchises and exclusive distributorships are lawful. Some of these relationships have been held to promote competition, as where each different brand has its own exclusive distribution network. *Cont'l T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977).

**5.9.5.4 Tying Arrangements.** "A tying arrangement is 'an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.'" *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 461 (1992) (quoting *N. Pac. Ry. v. United States*, 356 U.S. 1, 5-6 (1958)). Such an arrangement may violate § 1 of the Sherman Act "if the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market." *Id.* at 504 U.S. 462 (citing *Fortner Enters., Inc. v. U. S. Steel Corp.*, 394 U.S. 495, 503 (1969)).

This type of restraint can increase costs for government buyers because it might require the purchase of another product in order to acquire the desired one. This frequently happens where computer or technological systems are being purchased and the bid ties the product to various other products and services, such as maintenance and repair.

Forcing a buyer to use the service organization of a seller instead of allowing the buyer to bid service and maintenance separately from the equipment is a tying arrangement and can be illegal. *Eastman Kodak Co.*, 504 U.S. at 463. This is especially important where a buying agency is required to buy a particular brand of expensive equipment, but can get much better prices by separately bidding service and maintenance contracts to competitors in the service and repair markets.

Tying the price at which a bidder sells equipment to the purchase of service is not always unlawful. *Id.* Thus a vendor who bids equipment at a lower price if a service contract is also purchased, and a higher price if it is not, may not be unlawfully tying the products and services because the vendor is not refusing to sell unless the tied product is also purchased. However, depending on the availability of alternatives, this could be an unlawful trade restraint to the extent competition is actually harmed.

**5.9.5.5 Group Boycotts - Horizontal Refusals to Deal.** A group boycott occurs when horizontal competitors agree to refuse to do business with a third party. *United States v. Gen. Motors Corp.*, 384 U.S. 127 (1966); *Klor's, Inc. v. Broadway-Hale Stores, Inc.*, 359 U.S. 207 (1959). Group boycotts are employed to reduce the number of competitors in a market or to preclude new competitors from entry. Group boycotts are also utilized to coerce sellers to raise their prices.

In procurement, group boycotts often take the form of a group of competitors refusing to bid or to enter contracts unless prices are raised, or all competitors are offered the same contract terms, or contract terms are made more favorable. Boycotts are usually coercive and involve the threat that if the victim agency does not comply, none of the competitors will do business with it.

Boycotts are usually horizontal, but can be vertical. A buyer may threaten the seller with a refusal to deal unless the seller ceases selling to a competitor. Such cases are usually analyzed under the rule of reason. If a group of horizontal competitor-buyers engages in such an action, the boycott becomes horizontal, and in some instances may be *per se* illegal. *United States v. Gen. Motors Corp.*, 384 U.S. 127 (1966); *Klor's, Inc. v. Broadway-Hale Stores, Inc.*, 359 U.S. 207 (1959). The *per se* approach applies to cases in which firms with market power boycott suppliers or customers to discourage them from doing business with a competitor. *Balmoral Cinema, Inc. v. Allied Artists Pictures Corp.*, 885 F. 2d 313 (6<sup>th</sup> Cir. 1989). *Per se* treatment has generally been given to joint efforts of competitors to disadvantage a competitor or competitors by pressuring suppliers or

customers to deny relationships the competitor or competitors need to compete. *Nw. Wholesale Stationers, Inc. v. Pac. Stationery and Printing Co.*, 472 U.S. 284 (1985).

**5.9.5.6 Monopolization.** When a single firm has such control over a market that it can initiate a price increase without fear of losing any significant amount of business to any competition, it is said to have market power. *United States v. E.I. DuPont de Nemours & Co.*, 351 U.S. 377, 391 (1956). A firm that possesses and uses market power or has acquired it in some deliberate way that restrains trade is guilty of monopolization. *United States v. Grinnell Corp.*, 384 U.S. 563, 571 (1966). To determine if a monopoly exists, the market must be defined, both by product and by territory. *Brown Shoe Co. v. United States*, 370 U.S. 294, 324 (1962). What constitutes monopoly power in a product or geographic market depends on the circumstances of each case, including barriers to entry, profit levels, economies of scale, pricing patterns, and product differentiation. *United States v. Syufy Enters.*, 903 F.2d 659 (9th Cir. 1990); *Metro Mobile CTS, Inc. v. NewVector Commc'ns Inc.*, 892 F.2d 62 (9th Cir. 1989); *Ball Mem'l. Hosp., Inc. v. Mutual Hosp. Ins., Inc.*, 784 F.2d 1325 (7th Cir. 1986). Ninety percent of a market generally implies monopoly power, *United States v. Aluminum Co. of Am.*, 148 F.2d 416 (2d Cir. 1945); whereas a market share of less than forty percent generally precludes a finding of monopoly power. *United Air Lines v. Austin Travel Corp.*, 867 F.2d 737 (2d Cir. 1989).

It is not illegal to have a monopoly if it was obtained by a patent, superior product, skill, or historic accident. *Grinnell Corp.*, 384 U.S. at 571. A monopoly will usually be unlawful if it is obtained by exclusionary tactics. One wrongful way to obtain monopoly power is through predatory pricing, which occurs where a firm prices its products at below-marginal-cost levels to obtain market share and drive out rivals with the intent of later recouping its short term losses through artificially high prices after it has attained monopoly power. Very low bid prices, coupled with an increase in market share, can indicate predatory pricing. On the other hand, it is not unlawful for a business to use one product it sells as a loss leader in order to attract customers to its stores to purchase other products.

Government grants of exclusive franchises and long-term contracts can create monopolies in products or areas. In certain circumstances, however, government officials are immune from antitrust liability. See Sections 5.9.6, 5.9.6.1.

**5.9.5.7 Other Unlawful Acts.** State and federal antitrust laws may also be used to prevent unlawful mergers and acquisitions (15 U.S.C. § 18, A.R.S. § 44-1403), interlocking directorates between competing corporations (15 U.S.C. § 19), and discrimination in price between different purchasers (15 U.S.C. § 13).

**5.9.6 Exemptions.** There are both express and implied exemptions from the application of the antitrust laws. For example, human labor is expressly exempted by both state and federal antitrust statutes because it is not considered a commodity or article of commerce. 15 U.S.C. § 17; A.R.S. § 44-1404. In addition, some federal agencies have express authority to regulate and confer antitrust immunity on certain industries. See, e.g.,

49 U.S.C. § 10706; Staggers Rail Act of 1980, Pub. L. No. 96-448, 94 Stat. 1895 (1980). The "business of insurance" is also exempt under Section 1012 of the McCarran-Ferguson Act. 15 U.S.C. §§ 1011 to 1015.

The courts have implied an exemption for bona fide efforts to influence governmental action when the government is acting as a policy maker. *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965); *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961). This is commonly referred to as the "Noerr-Pennington" doctrine. On the other hand, sham petitioning that is objectively baseless and intended to impair competition is not immune from antitrust scrutiny. *Noerr Motor Freight*, 365 U.S. at 144. In a very few circumstances, the courts have found a unique professional activity (such as baseball) to be exempt. *Toolson v. New York Yankees, Inc.*, 346 U.S. 356 (1953).

**5.9.6.1 State Action Exceptions and Immunities.** The federal antitrust laws do not apply to the anticompetitive conduct of a state acting through its legislature. *Parker v. Brown*, 317 U.S. 341, 350-51 (1943). This is known as the "state action exemption."

State agencies, officials, and employees may be entitled to antitrust immunity if their actions are authorized by state law, even if suppression of competition is the foreseeable result of what the State is authorizing. *City of Columbia v. Omni Outdoor Adver., Inc.*, 499 U.S. 365, 373 (1991).

U.S. Supreme Court, however, recently narrowed the state action exemption in the case of *N.C. State Bd. of Dental Exam'rs v. F.T.C.*, 574 U.S. 135 S. Ct. 1101, 191 L.Ed.2d 35 (2015). The Court held that if a controlling number of a state entity's decision makers are active market participants in the occupation being regulated, state action immunity will only apply where, in addition to acting in accordance with a clearly articulated state policy to displace competition, the entity's actions are actively supervised by the State itself.

The state action exemption does not permit a state to authorize or approve – and thus immunize – the anticompetitive conduct of private parties who violate the antitrust laws. *Parker*, 317 U.S. at 351. Where state statutes permit private parties to set prices, the State action exemption is not available unless the State actively supervises the private parties to ensure that the price-setting activity is reasonable. *Cal. Retail Liquor Dealers Ass'n v. Midcal Aluminum, Inc.*, 445 U.S. 97, 105 (1980). The Supreme Court clarified the active supervision element of the test with respect to private actors in *F.T.C. v. Ticor Title Ins. Co.*, 504 U.S. 621 (1992). Under *Ticor*, private actors will not be granted immunity under a regulatory scheme unless the State has actively exercised its power to regulate the activity.

The state action exemption also does not provide immunity to state officials who participate in a purely private agreement or conspiracy in restraint of trade where the "State acts not in a regulatory capacity but as a commercial participant in a given market."



*Omni Outdoor Advertising, Inc.*, 496 U.S. at 374-375. Only true "state action" is immunized.

**5.9.7 Enforcement of Antitrust Laws.** In Arizona, the Attorney General, or a county attorney with the permission of the Attorney General, may enforce the Uniform State Antitrust Act. A.R.S. § 44-1407. Both the Attorney General and the County Attorney can prosecute the bid-rigging statutes criminally (A.R.S. §§ 34-252, -258), seek civil penalties (A.R.S. § 34-254), and recover for the State and its entities (A.R.S. § 41-192). Private parties may also enforce the law by bringing suit for damages or injunctive relief against alleged violators. A.R.S. § 44-1408(B). See Sections 5.9.3.1, 5.9.3.2, 5.9.4.1.

In the federal courts, the United States Department of Justice and the State Attorney General enforce the Sherman and Clayton Acts. 15 U.S.C. §§ 15a, 15c. Only the State Attorney General may bring federal *parens patriae* consumer litigation, 15 U.S.C. § 15c. Only the Antitrust Division of the Department of Justice may bring criminal enforcement or seek civil penalties, 15 U.S.C. § 15a; 15 U.S.C. §§ 1-3. Private parties also enforce federal law through private litigation. 15 U.S.C. § 15. The FTC enforces the Federal Trade Commission Act as it is applied to anticompetitive conduct. 15 U.S.C. § 45. See Section 5.9.3.3.

**5.9.8 Detecting Antitrust Violations in Bidding.** The bidding process is a fertile field for anticompetitive conduct. Procurement personnel risk being implicated in an anticompetitive combination if a vendor seeks direct influence in writing the specifications, seeks removal of a competitor from a vendor list, seeks inside information about competitors' bids before a bid award, asks about competitors' prices, seeks special treatment where considerations other than price are factors in bid awards, or seeks modifications to the contract after the bid is awarded.

If a procurement officer gives a vendor special treatment or inside information or accepts gifts or favors from the vendor, the officer may have entered into a conspiracy in restraint of trade. Even the appearance of special treatment, by repeated contact and communications with a single vendor during the bidding process, can create the appearance to the losing bidder that collusion has occurred. Although not an antitrust problem, avoiding this appearance can reduce bid protests.

In addition to resisting vendor influence, procurement officers can do much to enhance competition, for example, by writing specifications so that the largest number of firms qualify to bid and maintaining long vendor lists. In addition, avoiding brand-specific specifications and not requiring terms that only large firms can meet will open the market place to new and smaller firms. Bidding contracts, even when not required by the Procurement Code, may also enhance competition.

The first level of detection of antitrust violations, therefore, is an internal one. Government officers engaged in procurement should police themselves to avoid even a

hint of special favors or too-close associations with vendors. And procurement personnel should endeavor to promote competition through their policies and practices.

The second level of detection involves identifying the signs of collusion or other unlawful anticompetitive conduct among bidders. Procurement officers are in a unique position to detect suspicious bidding patterns indicating anticompetitive practices. If any of the following is observed, the procurement officer should alert the Antitrust Unit of the Attorney General's Office immediately. The Attorney General's Office can then investigate and take appropriate action to prevent threatened illegality or to remedy anticompetitive conduct that has already taken place.

**5.9.8.1 Identical Bids.** Identical bids submitted by competitors can indicate a possible illegal trade restraint. Although identical bids do not always indicate unlawful collusion by suppliers, they show a lack of price competition and deserve the scrutiny of the procurement officer. Identical bidding is sometimes the result of agreements among competitors to adhere to a published price list, which is illegal. See Sections 5.9.5.1. Public officials should note when vendors change from competitive prices to identical prices and be alert to references to "association" or "industry" prices.

**5.9.8.2 Simultaneous Price Increases and Price Maintenance.** A procurement officer should watch for simultaneous price increases. It is not necessary that all competitors charge the same for an item to indicate a conspiracy; an agreement to raise prices by a certain percentage increment may also violate the law.

The existence of resale price maintenance may come to a procurement officer's attention when bidders complain that suppliers require them to charge fixed markups or minimum prices. Refusals to bid may also be an indication that vertical price fixing is taking place; sometimes a vendor who will not go along with vertical price fixing finds itself unable to procure the products for which the bid is being solicited. A call from a procurement agent to those who decline to bid may elicit indications of illegal activities on the part of those who have submitted bids.

**5.9.8.3 Bid Rotation.** Bid rotation is a scheme in which all vendors participating in the scheme submit bids, but by agreement take turns being the low bidder. A strict bid rotation is incompatible with normal free market operation and should alert the purchaser to possible collusion.

Bid rotation between general and subcontractors also occurs. If unsuccessful bidders frequently receive subcontracts from the successful bidder, the subcontracts may be a reward from the successful bidder for the subcontractor's submitting a noncompetitive bid. Extremely close bids on construction projects or non-standardized items may also be an indication that bid rigging is occurring. Rotation according to contract size is another danger signal. Bid rigging has occurred where designated vendors or contractors are awarded contracts valued at an amount in excess of a certain figure, while others are awarded the contracts valued below the figure.

**5.9.8.4 Customer Allocation.** The unlawful allocation of customers is another technique used for bid rigging. Under this scheme, customers are divided among contractors or vendors with the understanding that one contractor or vendor will not bid on the contracts of a certain class of potential customers; in return, competitors will not bid on the class of customers previously allocated to the other contractor or vendor. The procurement officer occasionally should check with other purchasing agents who procure the same services or commodities to see if vendors are selling to some agencies but not to others.

**5.9.8.5 Territorial Allocation.** Territorial allocation is a scheme similar to customer allocation; the difference is that territories are allocated instead of customers. Thus, the agreement may demand that vendors not bid outside the boundaries of a certain county or section of a city or state.

Detection of this technique is similar to the detection of a customer allocation scheme: the procurement officer should become acquainted with bidders in other areas on similar construction projects or contracts for the sale of commodities or services to determine if vendors are bidding in some areas but not in others. Refusals to bid are also an indication of a territorial allocation. On several occasions bid solicitations have been returned with notations such as, "I cannot bid on this because I am not your distributor. Contact John Smith in Phoenix." Such responses are obviously suspect.

**5.9.8.6 Other Suspicious Bidding Practices.** Other antitrust violations can be detected just by being alert. For example, procurement officers should watch for sudden changes in bidding conditions. If a group of vendors or contractors suddenly eliminates or cuts back the period of warranty or the discount on the objects installed or sold, a conspiracy may have prompted the action. Finally, purchasing agents at all levels of government should maintain a well-established network of communications with each other.

**5.9.9 Application of the Antitrust Laws to State Employees Engaged in Purchasing.** The antitrust laws apply to all "person[s]," a term defined in A.R.S. § 44-1401. A.R.S. § 44-1403. State procurement personnel are not necessarily immune from antitrust liability by virtue of the fact they are employees of the State. See Section 5.9.6.1.

To avoid antitrust claims or accusations, procurement personnel should remain independent from vendors and their representatives. See Section 5.9.8. Those who buy and sell on behalf of the State should make their decisions on the basis of their independent analysis of the products and services needed, with a view toward maximizing competition among those who supply them.

**5.9.10 Antitrust Attorney's Fees.** The prevailing party in an antitrust case is entitled to recover reasonable attorney's fees and costs under both state and federal law. 15 U.S.C. § 15(a); A.R.S. § 44-1408.

Section 15(a) of the Clayton Act permits attorney's fees incidental to the statutory right of damages and thus, fees are not available in actions seeking only injunctive relief. *Twin Cities Sportservice v. Charles O. Finley & Co., Inc.*, 676 F.2d 1291, 1314 (9th Cir. 1982). An award of attorney's fees as part of the cost of a successful antitrust suit is mandatory. *Id.* at 1312. Under Arizona antitrust laws, however, a prevailing party in both an action for damages and for injunctive relief is entitled to attorney's fees. A.R.S. § 44-1408.

A prevailing antitrust plaintiff is entitled to recover reasonable attorney's fees for every item of service which, at the time rendered, would have been undertaken by a reasonable and prudent lawyer to advance or protect the client's pursuit of antitrust damages. *Twin Cities Sportservice*, 676 F.2d at 1313. Generally, the starting place for determining a reasonable award is to calculate the lodestar figure: the product of reasonable hours times a reasonable hourly rate. See, e.g., *Tic-X-Press, Inc. v. Omni Promotions Co.*, 815 F.2d 1407, 1423 (11th Cir. 1987).

If an antitrust settlement results in a common fund for the benefit of a plaintiff class, a court may exercise its equitable powers to award attorney's fees pursuant to the common fund doctrine. *Florida v. Dunne*, 915 F.2d 542, 544-55 (9th Cir. 1990). Under this doctrine, fees may be calculated on a lodestar or percentage of the fund basis, provided the fees are reasonable under the circumstances. *Id.* at 545. Twenty-five percent of the recovery is the benchmark where fees are calculated by using the percentage of the fund method. *Paul, Johnston, Alston & Hunt v. Graulty*, 886 F.2d 268, 272 (9th Cir. 1989); *Morganstein v. Esber*, 768 F. Supp. 725, 726 (C.D. Cal. 1991). The percentage can then be adjusted upward or downward to account for any unusual circumstances involved in the case. *Graulty*, 886 F.2d at 272-73.

## APPENDIX 5.1

### Exemptions from Procurement Code

Agency or Matter	Statute	Exemption
State Legislature	A.R.S. § 41-2501(D)	Exempt.
Agriculture, Department of	A.R.S. §§ 41-2501(U), (EE), (FF)	Partial exemption for contracts for private labor and equipment to plow-up cotton and cotton stubble per A.R.S. §§ 3-201 through 218; for contracts related to the aflatoxin control program and research programs related to cotton production or protection; and for expenditures from the Arizona Agricultural Protection Fund established per A.R.S. § 3-3304.
Arizona Correctional Industries	A.R.S. § 41-2501(I)	Partial exemption for the purchase of raw materials, components, and supplies used in its manufacturing.
Arizona Health Care Cost Containment System	A.R.S. §§ 41-2501(H) and (Q); <i>see also</i> A.R.S. § 36-2904(J)	Partial exemption for provider contracts and goods and services for the Long Term Care System.
Arizona Highway Magazine	A.R.S. § 41-2501(K)	Partial exemption for production, promotion distribution and sale of magazine and related products and for sole source creative works.
Child Safety, Dept. of	A.R.S. § 41-2501(LL)	Partial exemption for contacts with provider of family foster care pursuant to A.R.S. § 8-503; and eligible entity under Pub. L. 105-285 § 672 for purposes of that law.

Agency or Matter	Statute	Exemption
Corrections, Department of	A.R.S. § 41-2501(Z); <i>see also</i> A.R.S. § 26-153(D)	Partial exemption for expenditures from the morale, welfare and recreational fund established by A.R.S. § 26-153, and contracts with local medical providers for inmate health care services in counties with a population less than 400,000 to ensure inmate access to emergency medical health care.
Economic Security, Department of	A.R.S. § 41-2501(P); <i>see also</i> §§ 36-557(B), (J)	Partial exemption for contracts with: foster care providers or child day care providers licensed or certified by a State Agency; area agencies on aging created per Older Americans Act; an eligible entity for community services block grant money; local entity providing qualifying community developmental disability services, Arizona Long-Term Care System. Claims under qualified vendor contracts for client services.
Environmental Quality, Department of	A.R.S. § 41-2501(AA)	Partial exemption for procurement related to the Water Quality Assurance Revolving Fund Program, and for use of a single selection process for contracts for remedial actions.
Health Services, Department of	A.R.S. §§ 41-2501(R)–(S)	Partial exemption for contracts for: certain mental health services; services for seriously mentally ill per A.R.S. §§ 36-550 through -550.08; drug and alcohol services per A.R.S. § 36-141; domestic violence services per A.R.S. §§ 36-3001 through -3009; services for physicians at the Arizona State Hospital.

Agency or Matter	Statute	Exemption
Judicial Branch/State Courts	A.R.S. §§ 41-2501(E)–(F)	Exempt, but must adopt rules substantially equivalent to the state procurement code.
Litigation Related	A.R.S. §§ 41-2501(M), (O)	Contracts with professional witnesses if the purpose is to obtain professional services related to testimony in an existing or probable judicial proceeding in which the State is or may become a party; and contracts for special investigative services for law enforcement purposes are exempt. Agreements negotiated by legal counsel representing the State to settle litigation or threatened litigation are exempt.
Lottery, State Commission	A.R.S. § 41-2501(G)	Partial exemption for design and operation of the lottery and purchase of lottery equipment, tickets and related materials.
Public Safety Personnel Retirement System and Board	A.R.S. §§ 41-2501(T), 38-642 (C)	Exemption for contracts for goods and services approved by the Board. Board is exempt when procuring, establishing or administering a group cancer insurance policy.
Regents, Board of	A.R.S. §§ 41-2501 (E)–(F)	Exempt, but must adopt rules substantially equivalent to the state procurement code.
School for the Deaf and Blind	A.R.S. § 41-2501(X)	Partial exemptions for products, not available on statewide contract, are purchased through an authorized cooperative and are for operation of schools or otherwise qualified.

Agency or Matter	Statute	Exemption
Secretary of State	A.R.S. § 41-2501(L)	Partial exemption for printing and sale of the Administrative Code.
State Forester	A.R.S. § 41-2501(DD)	Partial exemption for purchases and contracts related to wild land fire suppression and pre-positioning equipment and other activities related to combating wild land fires and other unplanned risk activities.
State Parks Board	A.R.S. § 41-2501 (V)–(W)	Partial exemption for the purchase of guest supplies and items for resale for the facilities in the Tonto Natural Bridge State Park; and for the purchase, production, promotion, distribution and sale of publications, souvenirs and sundry items for resale.
Transportation, Department of, State Transportation Board, and Motor Vehicle Division	A.R.S. §§ 41-2501 (J), (BB)	Partial exemption for engineering services, construction and reconstruction relating to transportation and highway facilities and related services. The Motor Vehicle Division is exempt for agreements with "authorized third parties" to perform certain services for the public if the statutory conditions are met.
Constitutional Defense Council	A.R.S. § 41-401	Exempt for matters relating to the purposes of the Council.
Family College Savings Oversight Committee	A.R.S. § 15-1874	Partial exemption for solicitation of depositories and managers for fund monies.



Agency or Matter	Statute	Exemption
Housing, Department of	A.R.S. § 41-3953(D); See A.R.S. § 35-913	Exempt with regard to the exercise of its powers and duties pursuant to title 41, chapter 37. Partial exemption with regard to industrial development bonding, mortgage revenue bonding and mortgage credit certificates.
Financial Institutions, Department of	A.R.S. § 6-327	Partial exemption to contract with an agency that shares jurisdiction over a financial institution to retain its examiners.
Navigable Streams Adjudication Commission	A.R.S. § 37-1122(B)	Partial exemption for legal and professional services contracts.
Water Resources, Department of	A.R.S. § 45-1504	Partial exemption for flood warning system grants.